Canadian Tire 2000 Annual Report

a new era

(Dollars in thousands except for per share amounts)

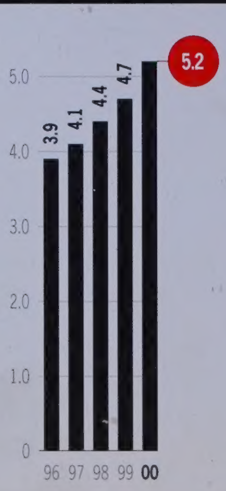
	2000 (52 weeks)	1999 (52 weeks)	Percent Change*
Consolidated			
Gross operating revenue	**$ 5,207,574**	$ 4,728,259	10.1%
Earnings before income taxes	**240,687**	227,099	6.0
Income taxes	**92,665**	81,170	14.2
Net earnings	**148,022**	145,929	1.4
Cash generated from operations	**352,314**	326,141	8.0
Cash generated from operating activities	**502,338**	323,453	55.3
Dividends	**31,328**	30,845	1.6
Per Share			
Net earnings	**$ 1.89**	$ 1.89	—
Cash generated from operations	**4.50**	4.22	6.5
Cash generated from operating activities	**6.41**	4.19	53.0
Dividends	**0.40**	0.40	—
Shareholders' equity	**18.58**	17.21	8.0
Number of shares – weighted average	**78,349,097**	77,211,467	1.5
Ratios			
Current ratio	**1.4**	1.3	
Inventory turnover	**8.5**	8.5	
Net debt to total capitalization	**43.0%**	43.8%	
Interest coverage	**3.5**	3.4	
Return on equity	**10.6%**	11.2%	

Business Units

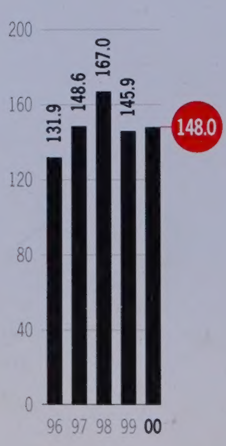
	Retail		Financial Services		Petroleum		Consolidated	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999
Gross operating revenue	**$ 4,024,406**	$ 3,800,288	**$ 329,642**	$ 305,997	**$ 853,526**	$ 621,974	**$ 5,207,574**	$ 4,728,259
Earnings before income taxes	**171,680**	155,912	**56,639**	55,989	**12,368**	15,198	**240,687**	227,099

* Percent change calculated from unrounded amounts

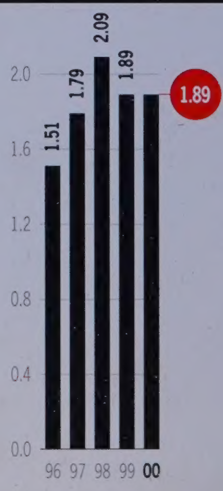
Gross Operating Revenue ($ billions)



Consolidated Net Earnings ($ millions)



Net Earnings per Share ($)



"We're entering a new era in Canadian Tire's retailing leadership. We'll be known as an organization with the stores, strategy and heart to deliver an exceptional customer experience profitably. And we'll be measured by the open communication and value creation that's expected of an industry-leading company. This is our commitment to you."

Wayne C. Sales President and Chief Executive Officer

Here's why it pays to

The most widely read retail catalogues and flyers in Canada

The most modern and innovative store network in Canada

At Canadian Tire Online, thousands of products available at the click of a mouse

Canadian Tire Corporation, Limited

Canadian Tire® offers a unique mix of products and services through three distinct yet interrelated businesses. We continually strive to meet the needs of our customers for total value by offering a very unique package of location, price, service and assortment. The employees of Canadian Tire and our Associate Dealers share a common vision: To be the best at what our customers value most.

Canadian Tire Retail

Canadian Tire Retail is Canada's leading hardgoods retailer. We offer consumers a large assortment of national and retail brands through three 'stores' under one roof: automotive parts, accessories and service, sports and leisure products, and home products. Our 441 stores from coast to coast are operated by entrepreneurial Associate Dealers.

hop at Canadian Tire

It Pays to Buy Gas Here®
means great value at the pump

Canadian Tire 'Money'™ in
existence for over 40 years

Instant, electronic rewards every
time customers use our cards

Did You Know?

- Canadian Tire operates 441 retail stores and 206 gas bars across the country.
- More than 60% of Canadians shop at Canadian Tire on a monthly basis.
- 80% of Canadians have shopped at Canadian Tire in the past six months.
- Canadian Tire is the most-shopped retailer for hardware, home improvement, sporting goods, small appliances and lawn and garden products in major Canadian markets.
- *Canadian Tire 'Money'* has the highest participation rate of any other loyalty program in Canada.
- Canadian Tire's weekly flyer is distributed to 10 million homes every week, making it the most widely read flyer in Canada.
- 38,000 Canadians are employed by Canadian Tire and the Associate Dealers.
- In 2000, Canadian Tire was named best company to work for by *Report on Business Magazine*.
- Canadian Tire was the first retailer in Canada to offer a branded MasterCard®.

Canadian Tire Petroleum

Petroleum is one of Canada's largest independent gasoline retailers. Our agent-operated sites also market products such as oil changes, car washes, propane and convenience items. Petroleum is an important component of our total offering, giving customers discounts on store merchandise as well as loyalty rewards for the purchase of petroleum products.

Canadian Tire Financial Services

Financial Services offers a variety of financial products, such as branded credit cards, that give Canadian Tire customers the convenience of alternative payment options. The division also operates an emergency roadside service and administers the Corporation's loyalty rewards that accrue to customers using our cards.

LOOKING INSIDE thinking outside

"We have taken a close look inside the Corporation and focused our efforts on aligning all 38,000 members of the Canadian Tire family behind those priorities that will deliver renewed earnings growth. At the same time, we're thinking outside our current view of the world to determine the strategies that will provide consistent, superior and long-term growth in value for shareholders."

Wayne C. Sales **President and Chief Executive Officer**

Canadian Tire now has a better-aligned organization with very clear accountabilities and—based on my 35 years of experience—**the best senior management group** in the retail business.

Let me start by saying that it is a privilege to lead an icon of Canadian life and business. It is a responsibility I take very seriously and an opportunity that I am very excited about.

When I took on my new role as President of Canadian Tire in August, I adopted a 'look inside, think outside' approach to the business. Looking inside, I asked, "Do we have the right executive team? Are we really focused and aligned on the right things as a company?" After reviewing the organizational structure and executive team, I felt some changes were needed. Canadian Tire now has a better-aligned organization with very clear accountabilities and—based on my 35 years of experience—the best senior management group in the retail business.

Thinking outside, I asked myself whether we really had the focus on those things that will enable Canadian Tire to truly differentiate itself by being the best at what our customers value most. In other words, are we aligned behind those actions and attitudes that are central to achieving our objectives of regaining earnings momentum and building shareholder value?

I report to you on our progress towards these objectives during 2000 with a mixture of celebration and disappointment. The biggest disappointment for us was a 1.4 percent increase in our consolidated net earnings. While revenues increased 10.1 percent to a record $5.21 billion, and pre-tax earnings rose 6.0 percent to $241 million, net earnings of $1.89 per share in 2000 were only equal to those of 1999.

There were a number of major factors that impacted earnings growth. The largest of these were $17 million in expenses for the development and launch of Canadian Tire Online, an increase of $13 million in depreciation expense primarily related to our investment in new-format stores, and a $10.9 million reduction in consolidated pre-tax earnings due to weaker demand for certain seasonal merchandise. A 2.8 percent increase in the Corporation's effective tax rate also reduced consolidated net earnings by $6.7 million or $0.09 per share.

So that's how we performed last year. We will do better, and I want to assure you that the entire management team is focused on regaining stronger earnings momentum.

Important Accomplishments

Turning to the area of celebration, there were many operational wins in 2000. We opened 45 new-format stores, more than the combined total of new stores opened by all discount mass merchants and home improvement warehouses in Canada. We also converted 44 new-format stores opened prior to 2000 to Next Generation merchandising, which incorporates all of our latest thinking on assortments, layout and the customer experience. By year end, there were 89 new-format stores in the marketplace that incorporated these Next Generation features.

Canadian Tire Online was only a dream at the beginning of the year. Shortly after its launch in November, Nielsen/Net Ratings ranked it as one of the top five e-commerce web sites in the country. Online represents a substantial investment in added convenience for customers, and we believe it has great long-term potential. While we intend to expand the online assortment in 2001 to 12,000 items in our catalogue and seasonal merchandise, we'll invest in further expansion when the results prove successful.

2001 Objectives

1.
Drive Revenue Growth

2.
Reduce Operating Costs

3.
Improve Customer Experience

1. Drive Revenue Growth

- Invest $270 million to open 40 new-format stores, 10 of which are incremental stores that will be built in new markets.
- Retrofit 40 existing new-format stores with Next Generation merchandising.
- Improve in-stock positions on all items at every store, with particular emphasis on promotional merchandise.
- Launch ExchangePoint, a project for sharing detailed retail information with major vendors to drive sales.
- Integrate more closely Retail, Petroleum, and Financial Services to drive store sales and Petroleum volume, particularly on Canadian Tire credit cards.

Finally, *PartSource®* opened 14 stores and acquired the Auto Village/Drivers chain in Western Canada, which will be fully integrated this year. As we're doing with Canadian Tire Online, we intend to manage the further development of *PartSource* on our own timetable. Our focus is to fine-tune its business model and determine the best pace for future growth.

During the past three years, Canadian Tire Financial Services has completed a major strategic change program. It has streamlined operations, increased productivity and become a strong, profitable niche player in the very competitive Canadian credit card market. In 2000, Financial Services not only grew its cardholder base substantially but also oversaw the very successful implementation of the *Canadian Tire 'Money' on the Card™* loyalty program. We think this loyalty program, which leverages the brand equity of our original *Canadian Tire 'Money'*, is going to be an important competitive advantage for the Corporation in the years ahead.

Canadian Tire Petroleum continued to improve its operations last year. Using the *It Pays to Buy Gas Here* marketing programs that were both innovative and aggressive, it increased litre sales of gasoline by nearly 12 percent, gaining market share across the country. And, for the first time, customers now receive *Canadian Tire 'Money' on the Card* loyalty rewards when they use our branded credit cards at Petroleum gas bars.

'Sell More, Spend Less, Make More Money'

In today's fast-paced business environment we sometimes add complexity, which can distract any company from the basics of business. I have been communicating with our team about a simple formula that will align this enterprise on success. This formula is 'sell more, spend less, make more money'.

In order to sell more, we are driving total and comparable store sales by managing for short-term performance and investing in longer-term growth. Our ongoing investment in new-format stores is a key strategic priority at Canadian Tire. We intend to open 40 new-format stores in 2001, bringing our total to 273. By the end of the year, 170 of these will showcase the Next Generation design, which we believe will be an important driver of comparable store sales. If you haven't yet seen this high-impact design and assortment, I encourage you to visit one of our stores that has completed this renovation. It really is the *best* generation of hardgoods retailing.

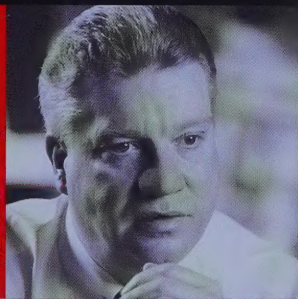
Another strategic imperative is an initiative we call CustomerLink, a multi-year investment that will ultimately reduce costs by adding flexibility and capacity to Canadian Tire's distribution network. In 2000, we completed work on our regional replenishment and storage capability in Montreal. We also broke ground on a 500,000 square foot distribution centre in Calgary that we expect to be operational in early 2002. We will implement multi-channel distribution at all of our facilities by the end of 2003. While CustomerLink is an investment in the short term to provide additional capacity, it will begin to deliver bottom-line benefits in 2003 and more fully in 2004.

In order to spend less, we have aligned the organization to drive down selling, general and administrative expenses as a percentage of revenue. We're committed to maintaining an expense structure appropriate to operating the business for the best returns. We will also

- Implement expanded Dealer Relations mandate to improve store operations, share best practices and ensure increased alignment with national marketing initiatives.
- Expand Canadian Tire Online selection from 5,500 to 12,000 products and, for the first time, offer customers the convenience of ordering from the catalogue.
- Grow Financial Services portfolio of cardholders through aggressive acquisition program for retail cards and conversion of cardmembers to MasterCard.
- Market aggressively the customer savings that can be earned from the *Canadian Tire 'Money' on the Card* loyalty program.
- Finalize integration of Auto Village/Drivers acquisition and fine-tune *PartSource* business model.

2. Reduce Operating Costs

- CustomerLink will substantially complete the Calgary distribution centre and develop multi-channel capabilities to significantly reduce costs starting in 2004.



We are driving total and comparable store sales by managing for short-term performance and investing in longer-term growth.

limit capital spending to projects that can deliver higher, more immediate returns, like new-format stores, so that we maintain a strong balance sheet.

So that is my straightforward formula for measuring Canadian Tire's success in 2001: sell more, spend less and make more money. I fully expect that you will measure our performance on exactly the same terms.

Improving the Customer Experience

In my view, retailers don't steal market share; they must earn it. That's why I want to highlight an initiative that we believe is going to improve our ability to earn more business from more Canadians.

During 2000, we listened to our customers and worked closely with Dealers to identify a set of fundamental Customer Values that will significantly improve our customers' shopping experience and bring us closer to our vision to be the best at what our customers value most. This year, we're aligning and focusing the organization on two of these Values that we believe will have the most beneficial impact on the customer experience and our business. We have a significant opportunity to grow our comparable store sales by being in-stock 'every day, every store, every item', so the first value we will build on is ensuring that Canadian Tire stores are in-stock on all promotional items. A dedicated team is currently developing key measurements and the process changes required to achieve this aspiration.

The second value we're embracing is to provide better customer service from available, enthusiastic and knowledgeable store employees. Canadian Tire is taking a leadership position in the industry by providing Dealers and their store staff with a web-enabled learning network for product knowledge. This '24/7', learning-on-demand network, which we developed in cooperation with Dealers and vendors, will be a critically important tool

- Realize benefits from reorganization in 2000 and seek specific reductions in selling, general and administrative expenses throughout the enterprise.
- Improve working capital management and continue to increase inventory turns, while increasing merchandise shipments to Associate Dealers.
- Implement business simplification initiative at Financial Services to focus on Canadian Tire branded cards. Reduce capital spending and general level of operating costs.

3. Improve Customer Experience

- Focus and align all 38,000 members of Canadian Tire family on key Customer Values.
- Launch Internet-based e-learning network to improve store employees' product knowledge and customer service skills.
- Enable telephone and Internet shopping from annual catalogue for home delivery, for the first time.

in delivering a consistent, exciting retail experience to Canadians. More to the point, being the best at these Customer Values will be essential for Canadian Tire to continue to be the most-shopped retailer in Canada and provide a sustainable competitive advantage.

Preparing for Long-term Growth and Performance

As your new chief executive, I felt it was appropriate to ask from an outside perspective, "Are we really focused on the things that best serve the long-term interests of shareholders?" While we believe the answer is "yes" on key programs for future growth, such as ongoing investment in our new-format stores, Next Generation and more efficient distribution, I also felt it was the appropriate time to examine every facet of the Corporation to make sure we're getting optimal returns that will fuel future growth in shareholder value.

As I write this, we've embarked on a comprehensive strategic review of Canadian Tire. I think you should know how we see the ultimate objective of the review. It is, 'to increase shareholder value over time through consistent and superior growth in key metrics when compared to other North American retailers'.

In order to cross that goal line, we're reviewing each of the Corporation's businesses, their financial situation and their overall plans and projections for growth. From that analysis, we'll be evaluating changes to our existing businesses, and recommending new business opportunities, that will enable Canadian Tire to outperform in the marketplace. We expect to have a completed strategic plan later this year.

Looking Forward with Confidence

I hope you will come away from reading this report with the same confidence I have in the future of Canadian Tire. We have taken a close look inside the Corporation and focused our efforts on aligning all 38,000 members of the Canadian Tire family behind those priorities that will deliver renewed earnings growth. At the same time, we're thinking outside our current view of the world to determine the strategies that will provide consistent, superior and long-term growth in value for shareholders.

The year 2001 will be challenging, and we have a demanding agenda. As a team—and I include Associate Dealers as key members—we're of one mind in our excitement about the future of Canadian Tire and our commitment to deliver on the promises outlined here. I look forward to reporting back to you on our progress.

Wayne C. Sales

Wayne C. Sales **President and Chief Executive Officer** March 1, 2001

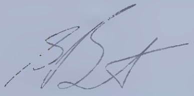
It was with a great deal of pride and with confidence in the future that I announced last August the appointment of Wayne Sales as Canadian Tire's new President and Chief Executive Officer. I say pride because Wayne is 'one of our own', having been in executive positions with the Corporation since 1991; and confidence, because he brings 35 years of retailing experience to the job, most recently as Executive Vice-President of Canadian Tire Retail.

Despite Wayne's obvious qualifications and experience, his appointment was not a foregone conclusion. The Search Committee of the Board undertook an exhaustive, international search to find the right person to lead Canadian Tire. Wayne was unquestionably the right choice, and his decisive actions since his appointment as CEO have reinforced the Board's view that the very best candidate was right under our own roof.

The thoroughness of the Search Committee's process of evaluating candidates for CEO is indicative of the Board's approach to the governance of Canadian Tire. Members of the Board and its committees are called on to make very significant commitments of time and intellectual energy to overseeing the management of the Corporation's affairs. I can assure you that their engagement is exemplary and always with the best interests of all shareholders held firmly in mind.

Board members are actively involved with the development of a new strategic agenda for Canadian Tire's next phase of growth. We have already approved management's objectives for the strategic planning process. One of our primary concerns in 2001 will be to assess the value-creating capability of the new strategic plan that will be completed during the third quarter of the year. We have great confidence in the ability of management to lead the Corporation forward, and we will work closely with Wayne and his team in setting the strategic direction for the foreseeable future.

Finally, one member of the Board will not stand for re-election at the May 2001 Annual General Meeting. After 15 years of service, Donald C. Lowe has decided to step down as a director and member of the Management Resources and Compensation Committee and the Social Responsibility Committee. On behalf of the Board, I thank Don for his dedication and outstanding contribution to the interests of the Corporation and Canadian Tire shareholders.



Gilbert S. Bennett **Chairman of the Board**

Ted Mitchell (top photo, left), Associate Dealer at Store 168 in Cambridge, Ontario, and Sheri Hughes (bottom photo, left) at Store 206 in Bracebridge, Ontario, know that knowledgeable friendly store employees are essential for improved customer experience in our stores.

By the end of 2002

250

e-learning modules will be available

In a survey of more than 100 of Canada's best call centres, Canadian Tire Financial Services' Customer Service Division was chosen as the best overall for its "world-class" performance and customer satisfaction.

Canadian Tire leads the retail industry in providing on-demand, self-paced e-learning for store employees. Tom Kerns of Store 122 in Burlington, Ontario uses a prototype of the system, which was launched in early 2001.

We will dramatically improve our Customer Service by aligning the entire organization behind fundamental Customer Values.

Canadian Tire and its Associate Dealers are of one mind in acknowledging that we must continually improve our ability to provide a fast, easy shopping experience that is consistent in all Canadian Tire stores. During 2000, we developed a short list of fundamental Customer Values at which we must be best in order to retain the loyalty of our customers. We are committed to significant improvement on two of these Values as quickly as possible.

First, we intend to substantially improve our in-stock position on all products in Canadian Tire stores, with particular emphasis on promotional merchandise during the entire sale period. We believe there are significant, incremental revenues to be gained by meeting this commitment to customers. The investment we are currently making in the flexibility and capacity of our supply chain is critical to achieving this key competitive advantage.

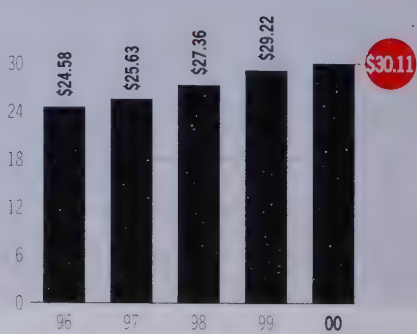
Our second Value is that customers should have the assistance they consistently need from available, enthusiastic and knowledgeable employees in our stores. We intend to live by these words. In early 2001, we took an important step towards this aspiration when we launched an innovative Internet-based e-learning network across the country that was designed jointly with Associate Dealers and major vendors. The current base of more than fifty 30-minute modules will be expanded to 250 over the next 18 months, covering all areas of customer service and product knowledge. The modules are interactive and designed on adult learning principles that respond to the learning needs and progress of each individual and are available anytime on demand.

233

new-format stores opened since 1994

+22%

Average sale value per customer 1996–2000



Canadian Tire is Canada's largest provider of automotive after-market service.

The largest **revitalization** of its kind in Canada.

Canadian Tire's new-format store program is the largest revitalization of a national retail chain in Canada. Now in its eighth year, the program continues to produce substantial first-year sales increases as well as ongoing gains in new-format comparable store sales. These stores are built in five sizes to suit the needs of a wide variety of markets across the country. What's more, their common platform enables Canadian Tire to quickly adopt innovative merchandising presentations, such as Next Generation, to meet the changing expectations of customers.

New-Format Stores Built by Year

Average Size			1994	1995	1996	1997	1998	1999	2000	Forecast 2001
A	53,000	square feet	3	9	11	5	6	15	12	11
B	44,000	square feet	0	1	3	7	8	13	8	8
C	28,000	square feet	5	15	13	16	10	11	12	10
D	21,000	square feet	0	2	5	8	4	3	6	6
E	17,000	square feet	0	0	0	0	6	9	7	5
Total new-format stores			8	27	32	36	34	51	45	40
Cumulative new-format stores			8	35	67	103	137	188	233	273
Total traditional stores			415	389	359	327	293	244	208	177
Total new-format and traditional stores			423	424	426	430	430	432	441	450

Stores outfitted with **Next Generation** merchandising are receiving strong customer endorsement in the form of substantial sales lifts.

Next Generation is an evolution of our new-format store program. We combined the findings from years of extensive research on customer shopping preferences with our accumulated merchandising experience in these stores to deliver the 'best generation' of Canadian Tire store yet. Next Generation offers more closely related groupings of products and departments, expanded assortments in selected categories, improved sight lines and navigation, and new customer-friendly information services. Stores outfitted with Next Generation merchandising are receiving strong customer endorsement in the form of substantial sales lifts. All new-format stores built in 2000 included Next Generation features.

new era

89

stores with the Next Generation look and feel

2000 Sales Accelerate at Next Generation Stores Versus a Control Group of Stores

Hardware	up 7% vs. 4%
Home Improvements	up 4% vs. 2%
Housewares	up 9% vs. 6%
Tires	up 3% vs. –1%

2000 Retail Sales by Product Division

	Home	Leisure	Automotive	Total Retail
2000 retail sales* ($MM)	$ 2,162	$ 1,458	$ 1,343	$ 4,963
Percent of 2000 retail sales	43.6%	29.4%	27.0%	100%
Growth rate percent of total (versus 1999)	5.6%	1.6%	5.4%	4.2%

* Excludes auto service, Petroleum and Financial Services

new era

From mouse to house, Online means added convenience for customers.

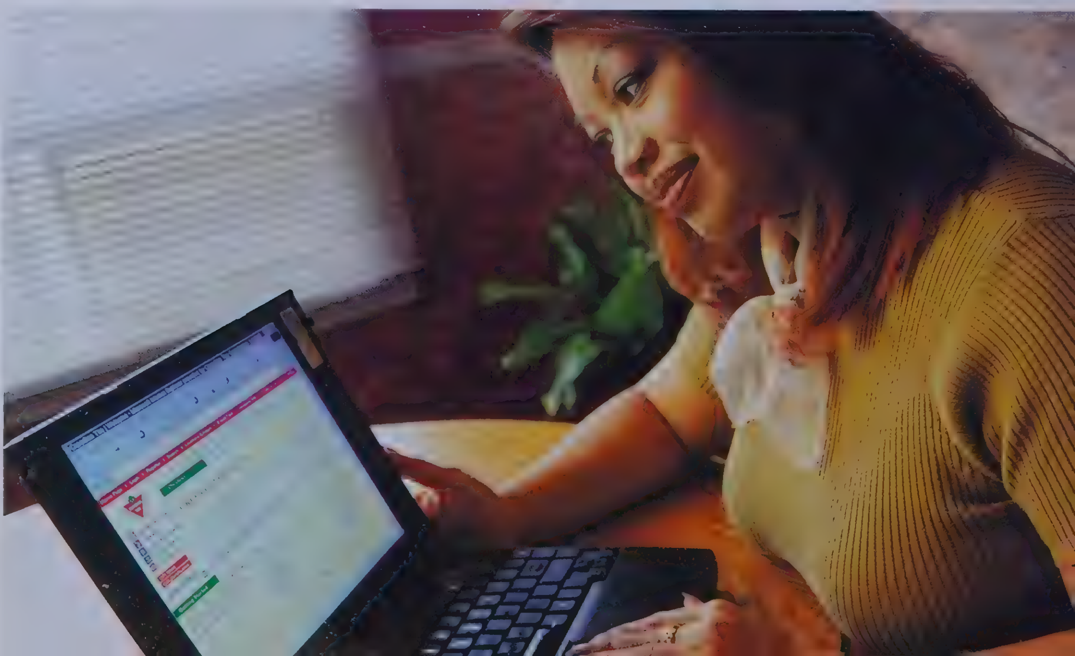
Launched in November 2000, our new e-commerce site—canadiantire.ca—offers customers the option of an electronic shopping channel and home delivery for thousands of Canadian Tire products. Canadiantire.ca was ranked among the top five most frequently visited sites in Canada just weeks after its launch. Many of our *e-Flyer*™ subscribers were among the first to register as online customers. Our studies suggest that while the online channel is a good opportunity for incremental revenue growth, it may ultimately prove to be far more important as a driver of in-store sales.

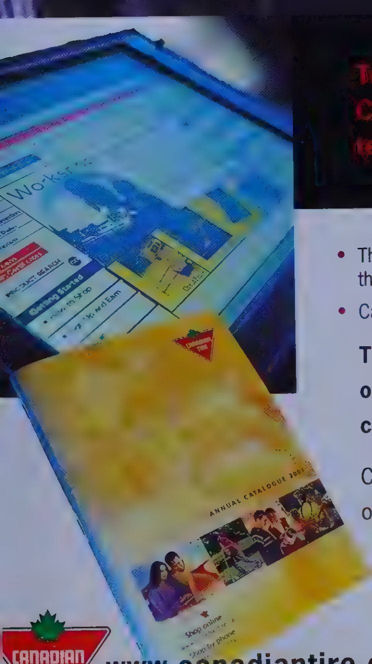
Average $ transaction

3X

higher online than in the stores

Canadiantire.ca was ranked among the top five most frequently visited sites in Canada just weeks after its launch.





Two new ways to shop: For the first time in history, Canadian Tire now offers catalogue ordering by telephone and online

- Thousands of our best-selling products in the catalogue will be offered for sale over the telephone or via the Internet.
- Catalogue product orders will be conveniently delivered to customers' homes.

This new capability leverages the infrastructure created for our online business: online 'webstore', third-party distribution centre, customer service centre.

Canadiantire.ca offers over 12,000 products and is a valuable source of information for additional products sold in the stores.

www.canadiantire.ca
1-866-SHOP-CTR

new era

It pays to use the cards

In September 2000, Financial Services re-launched 2.4 million Canadian Tire MasterCard and retail cards with a new and improved loyalty program. The program replaced the old *Options*® loyalty rewards with one more closely aligned with our famous *Canadian Tire 'Money'*. Customers using our branded credit cards now get even higher rewards with instant *'Money' on the Card* for every purchase they make at Associate Stores and Petroleum gas bars. Canadian Tire MasterCard users also receive *'Money' on the Card* for their purchases anywhere in the world.

Credit purchases have more than twice the earnings impact of cash purchases

Total all the **Customer Rewards** available at Canadian Tire and they add up to unbeatable value.

We know that one of the things Canadian Tire customers value most is value itself. No one delivers more value for hardgoods and gasoline purchases than Canadian Tire. That's why *It Pays to Buy Gas Here*. Because all customer rewards are redeemable for purchases at Associate Stores and Petroleum gas bars, Canadian Tire achieves tremendous cross-merchandising leverage from its loyalty programs.

In addition to *Canadian Tire 'Money'* for cash purchases, and *Canadian Tire 'Money' on the Card* rewards for purchases using our branded credit cards, customers receive other meaningful rewards for their loyalty:

Meaningful Rewards

Where	Reward
Gas bar	Discounts of up to 70% off on selected in-store products, 26 times per year
Flyer, stores	Special discount coupons giving 2–10 times the base reward on gasoline
At pump	Automatic "multiplier" discounts for swiped Canadian Tire credit card purchases

3.6 million Canadian Tire retail cards in circulation as of the end of 2000

1.2 million Canadian Tire *Options* MasterCards in circulation as of the end of 2000

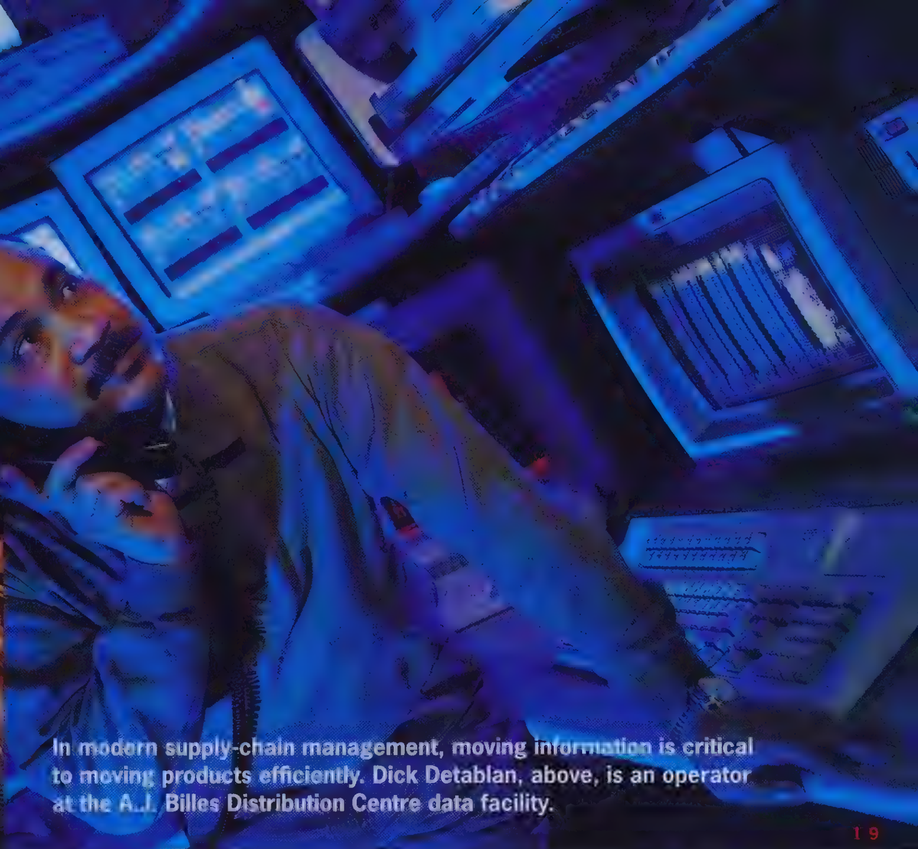
new era

CustomerLink is a key strategic priority over the next three years.

CustomerLink is an extensive, multi-year upgrade of Canadian Tire supply-chain capabilities. It has been designed to provide the capacity to meet new growth targets and to improve cost efficiencies. The strategy involves two key components. The first is the development of regional distribution centres in Montreal and Calgary. The second is the continual evolution to an improved multi-channel distribution model, giving the Corporation more efficient flow-through and cross-dock capabilities. These improved capabilities will enable Canadian Tire to select distribution channels that optimize product movement, which in turn will reduce handling and carrying costs.

CustomerLink will begin to deliver bottom-line benefits in 2003

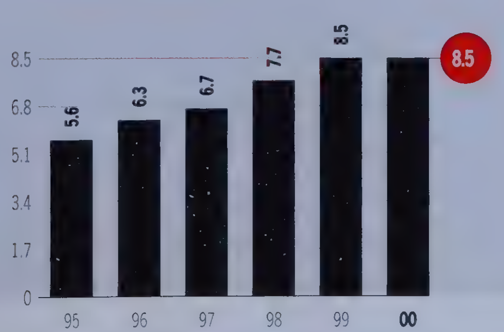
With CustomerLink, we will create the capacity to meet our targets for growth, improve in-stock positions and reduce supply-chain costs.



In modern supply-chain management, moving information is critical to moving products efficiently. Dick Detablan, above, is an operator at the A.J. Billes Distribution Centre data facility.

- CustomerLink is an investment of $230 million in a phased expansion of Canadian Tire's supply-chain capacity and flexibility. With $40 million already invested, about $110 million is committed for 2001.
- 2000: Regional replenishment and storage capacity work completed in a third-party warehouse in Montreal, Quebec to serve 132 stores in Eastern Canada.
- 2000: Broke ground on a 500,000 square foot facility in Calgary, Alberta that will serve 125 stores in Western Canada by 2002.
- 2001: Accelerated development on systems for multi-channel distribution.
- 2002: Will open Calgary distribution centre and install multi-channel capabilities.
- 2003–2004: Will install multi-channel capabilities in existing Brampton, Ontario distribution centres.

Inventory Turns



a new era

OVERVIEW OF THE BUSINESS

Canadian Tire Corporation, Limited ("Canadian Tire" or the "Corporation") comprises three business units: Canadian Tire Retail ("CTR"), Canadian Tire Petroleum ("Petroleum") and Canadian Tire Financial Services ("Financial Services").

The **CTR** business unit is Canada's leading hardgoods retailer, offering consumers more than 100,000 stock-keeping units of automotive parts and accessories, sports and leisure products, and home products, through a network of 441 stores operated by Associate Dealers. CTR, through its Associate Dealers, also operates Canada's largest auto service business and manages the marketing and operations of the Petroleum business through a network of independent agents.

In November 2000, CTR launched Canadian Tire Online. This new service gives customers the added convenience of making purchases via the Internet from an initial offering of 5,500 stock-keeping units, for delivery directly to their homes.

The Corporation also operates *PartSource*, which by the end of 2000 had expanded this business into a chain of 28 specialty automotive parts stores targeted at heavy do-it-yourself enthusiasts and commercial installers.

Canadian Tire Petroleum, one of the largest independent retailers of gasoline in Canada, markets petroleum and related products as well as convenience items through a network of 206 independent agent-operated outlets. It also supports CTR merchandise sales through special promotions and the issuance of *Canadian Tire 'Money'* for cash customers and electronic *Canadian Tire 'Money' on the Card* for Canadian Tire credit card customers. Both are redeemable for goods at Associate Stores across Canada.

The **Financial Services** business unit is engaged in financing and managing customer credit accounts that result from customers' use of their Canadian Tire retail, commercial and MasterCard credit cards. Financial Services also manages the *Canadian Tire 'Money' on the Card* loyalty program, operates an emergency roadside service and markets a variety of insurance and warranty products to Canadian Tire customers.

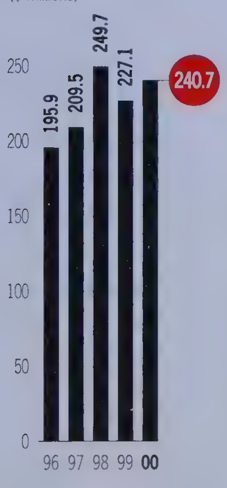
Canadian Tire Associate Dealers make a major contribution to the success of the combined business. They play an integral part in the continuing development of our customers' shopping experience and have a substantial personal financial investment in their businesses, which they operate in accordance with the Corporation's overall strategy and marketing programs.

The Corporation and Associate Dealers provide employment to over 38,000 Canadians.

CONSOLIDATED RESULTS

The Corporation's consolidated gross operating revenue was a record $5.2 billion for fiscal 2000, a 52-week period ending December 30, 2000. This was an increase of 10.1 percent over consolidated gross operating revenue of $4.7 billion in fiscal 1999, a 52-week period ending January 1, 2000. Pre-tax consolidated earnings rose 6.0 percent to $240.7 million from $227.1 million in the prior year. After-tax consolidated earnings were $148.0 million in 2000 compared with $145.9 million in 1999—a 1.4 percent increase. Consolidated net earnings per share were $1.89, unchanged from 1999.

Consolidated Earnings Before Income Taxes
($ millions)



Major factors affecting 2000 consolidated net earnings include: an expense of $17 million, as part of the $22 million invested in 2000 for the development and launch of Canadian Tire Online; an increase of $13 million in depreciation expense, primarily associated with the Corporation's investment in new-format stores; a reduction of consolidated pre-tax earnings of $10.9 million resulting from weaker industry-wide demand for certain seasonal merchandise; a fourth-quarter expense of $4 million associated with the Corporation's restructuring; a first-quarter $4 million charge for the remainder of a contractual retirement obligation to the former CEO; $2.5 million of expenses to improve the Corporation's distribution capability; and an increase in the effective tax rate to 38.5 percent in 2000, which reduced consolidated net earnings by $6.7 million or approximately $0.09 per share. In 1999, the Corporation's consolidated earnings were reduced by the expensing of $58.5 million of costs in the fourth quarter of the year. These costs were related primarily to improved information technology capabilities, the development of an e-commerce platform and contractual obligations to the former CEO upon his retirement.

Summary of Key Factors Affecting Consolidated Results

CTR's gross operating revenue rose 5.9 percent to $4.0 billion in 2000 due primarily to a 6.0 percent increase in shipments to Associate Dealers. CTR's operating earnings increased by 10.1 percent to $171.7 million as a result of higher revenues and the absence of 1999 year-end expense adjustments, offset by unseasonable spring and summer weather and increased supply chain costs.

While Petroleum gross operating revenue jumped 37.2 percent to $853.5 million due to higher pump prices and an 11.7 percent increase in gasoline litre sales volume, operating earnings declined 18.6 percent to $12.4 million, due to an escalation of the world cost of crude oil.

Financial Services' gross operating revenue for the year rose 7.7 percent to $329.6 million. Operating earnings increased by 1.2 percent to $56.6 million from the prior year. This earnings performance reflected increased expenses associated with the division's ongoing investment to increase the use of Canadian Tire credit products and the introduction of the *Canadian Tire 'Money' on the Card* loyalty program.

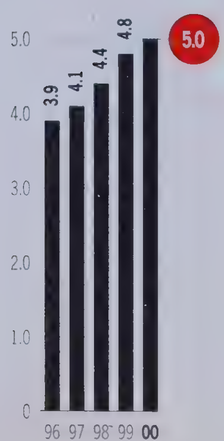
Depreciation and amortization of property and equipment, which is primarily related to expenditures on new-format stores by CTR, totalled $119.7 million in 2000, up 12.6 percent from the $106.3 million recorded in the prior year. The Corporation's effective tax rate was 38.5 percent compared to 35.7 percent in 1999.

Finally, the weighted average number of shares outstanding increased to 78.3 million in 2000 from 77.2 million in 1999. Canadian Tire has a policy of repurchasing over the long term approximately the same number of Class A Non-Voting Shares that are issued under various stock compensation and dividend reinvestment programs. The number of these shares purchased during 2000 under the Corporation's Normal Course Issuer Bid program was 1,400,000. Segmented information of key financial data can be found in Note 14 to the Consolidated Financial Statements.

REVIEW OF OPERATIONS

This discussion of the Corporation's business units reviews their operational and financial performance in 2000 compared to 1999 and provides their outlook for 2001.

Annual Retail Sales
($ billions)



Canadian Tire Retail

2000 Operating Highlights

An average first-year sales lift of more than 60 percent from the 45 new-format stores opened in 2000 helped increase total retail sales at Associate Stores by 4.2 percent in 2000. Comparable store sales, however, decreased 1.7 percent due to a combination of unusually cold, wet weather in spring and summer; reduced average contribution from traditional stores in urban areas; the absence of 1999 demand for Y2K-readiness provisions; and weaker sales of seasonal merchandise in the fourth quarter of 2000. The average sales transaction in Associate Stores increased 3.0 percent in 2000 to $30.11.

Higher retail sales resulted in a 6.0 percent increase in net shipments to Associate Dealers. As a result, CTR's gross operating revenue reached $4.0 billion, up 5.9 percent from the $3.8 billion recorded in 1999. All three merchandising divisions of CTR contributed to the growth in shipments. Home Products was the most significant contributor, as customers favourably responded to the introduction of Next Generation merchandising at 44 existing new-format Associate Stores during 2000. Increased retail sales, and a full year of sales from *PartSource* stores opened before 2000, led to increased shipments in Automotive categories. While shipments in Sports & Leisure categories increased, the rate of growth was significantly lower than that of the previous two years for the same reasons that comparable store sales decreased, as mentioned above.

CTR operating earnings for the year were $171.7 million, a 10.1 percent increase from the $155.9 million earned in 1999. The improvement was due primarily to the overall increase in shipments to Dealers, a reduction in retail net advertising costs and the absence of year-end 1999 expense adjustments. CTR's earnings performance was impacted by a variety of factors in 2000, including a $22 million investment in Canadian Tire Online, $17 million of which was expensed; comparatively slower growth in shipments in Sports & Leisure categories noted above; and the clearance of excess inventory of seasonal merchandise, which reduced pre-tax earnings by $10.9 million. In addition, supply chain costs as a percentage of net shipments increased 35 basis points due to higher wage costs and capacity constraints at peak periods at CTR distribution centres. The capacity constraints were mitigated by reduced inventory levels. Longer-term growth in shipments will be accommodated in early 2002 with the opening of the new Calgary, Alberta, distribution centre as part of the CustomerLink program, which is discussed in more detail in the 2001 Outlook section for CTR.

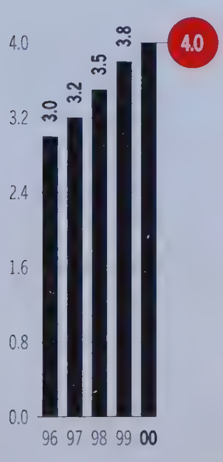
Corporate merchandise inventories at the end of 2000 were $60.7 million below 1999 levels, almost equal to those at the end of 1998 despite a 14 percent increase in shipments to Associate Stores over that period. Year-end inventories declined 13 percent in 2000 to $412 million compared to $473 million at the end of the prior year; 1999 year-end inventories had increased by $61 million over 1998 levels due to advance buying in anticipation of customers' needs for Y2K-readiness. Collaborative time phase replenishment processes combined with more efficient merchandise management maintained inventory turns at 8.5 during 2000, even with a 6.0 percent increase in net shipments. This maintains the positive trend of improvement from turns of 5.6 in 1995.

Effective September 1, 2000 the Corporation purchased the shares of Pacific Associate Stores Limited which had operated a chain of Associate Dealer stores in the Greater Vancouver area. The acquisition will allow CTR to further penetrate the Greater Vancouver marketplace, upgrading older traditional stores to the new format and implementing the Associate Dealer framework employed across the rest of the country.

Key Initiatives

During 2000, CTR opened an additional 45 new-format stores at a cost of $292.3 million. Since the rebuilding program was initiated in 1994, 233 new-format stores have been opened representing 53 percent of Canadian Tire's store network. As most of these new stores were replacements or expansions of existing stores, the total store network reached 441 stores at the end of the year as compared with 425 stores prior to the start of this program. These new-format stores have made a major contribution to the $1.8 billion increase in consolidated gross operating revenue since 1993. CTR intends to open approximately 115 additional new-format stores by the end of 2003, which will significantly contribute to revenue growth and continue to enhance the customer experience. The majority of these stores will replace existing traditional stores in the Canadian Tire store network. Next Generation merchandising, which offers customers improved sight lines, easier navigation and expanded assortments in hardware, home improvement, housewares and tires, was incorporated in the 45 stores opened in 2000 and retrofitted in 44 existing new-format stores. As noted above, the 89 stores that have incorporated the Next Generation merchandising innovations to date are beginning to drive even higher sales gains, particularly in highly competitive Home Products categories.

CTR Gross Operating Revenue
($ billions)



CTR launched the new Canadian Tire Online e-commerce site in November on schedule. The site gives consumers the convenience of a new channel for purchases and home delivery of an initial assortment of 5,500 stock-keeping units. The complex undertaking to develop the appropriate business model, creating the web site, linking with Financial Services' payment systems and establishing third-party distribution necessitated an investment of $22 million in 2000, $17 million of which was expensed. Within two weeks

of its debut, the site was already one of the top five Canadian web sites in terms of customer visits, as measured by Nielsen/Net Ratings, demonstrating the strength of the Canadian Tire brand.

CTR also opened 14 new *PartSource* stores and made an acquisition in 2000, bringing to 28 the total number of these stand-alone specialty auto parts stores in operation at year end. In June, *PartSource* acquired the assets of Auto Village/Drivers, an automotive parts chain in Western Canada. Following the consolidation of some locations, the acquisition added a net six stores in Edmonton, Calgary, Saskatoon and Moose Jaw and will enable *PartSource* to refine its execution in those markets. Complete conversion of the acquired stores to the *PartSource* format is expected by mid-2001. The Corporation has doubled its share of the do-it-yourself automotive hard parts business in markets which include both Canadian Tire stores and a well-established *PartSource* presence.

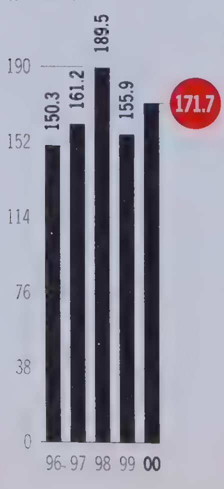
2001 Outlook

In late 2000, Canadian Tire management initiated a comprehensive strategic review of the Corporation's businesses and their opportunities for long-term growth. The objective of this review is to increase shareholder value over time through consistent and superior growth of key metrics when compared to other North American retailers. Simply stated, Canadian Tire must outperform our market sector to be the preferred choice for investors. While the strategic priorities and timetable for their implementation are being developed, management is committed to improving near-term earnings by continuing to invest in existing programs designed to increase total and comparable store sales and to significantly drive down costs. In addition, the strategic review will result in the development of a long-term strategic plan, which will include the identification of new business opportunities. The review will also ensure that the Corporation has the capital structure and competencies to realize appropriate returns on any such opportunities.

Management is prioritizing its capital investment in 2001 on initiatives to deliver the highest and most immediate returns or that are essential to service existing business more efficiently. New-format stores and CustomerLink are two such initiatives.

In 2001, CTR plans to spend approximately $270 million to open 40 new-format stores. It will also retrofit 40 existing new-format stores with the Next Generation merchandising enhancements. By year end, approximately 170 new-format stores of a total of 273 will incorporate Next Generation features.

CTR Operating Earnings
($ millions)

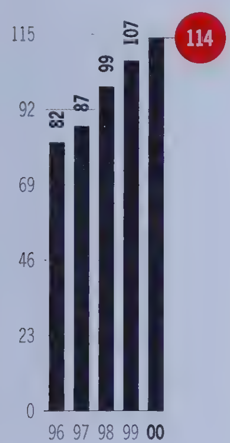


CTR will continue to invest in the development of CustomerLink, its multi-year strategy to add flexibility and capacity to Canadian Tire's distribution network. In 2000, work was completed on regional replenishment and storage capacity in a third-party warehouse in Montreal. CTR also broke ground on a 500,000 square foot distribution centre in Calgary that will serve 125 stores in Western Canada when it is operational in early 2002. When completed, CustomerLink will add a much more efficient, multi-channel distribution capability, first in Calgary and subsequently at CTR's current distribution centres in Brampton, Ontario.

The Corporation plans to invest up to $230 million over four years in CustomerLink to develop its multi-channel, supply-chain technology. Some $40 million has been spent to date, with a further $100–110 million committed for 2001 programs. The balance of the expenditure will be invested in the years 2002 through 2004. These investments will enable CTR to accommodate increased shipments to Associate Stores at reduced costs for handling, carrying inventory and transportation. This program is expected to significantly lower these expenses in 2004 and beyond to generate an appropriate return on the capital invested.

Given the focus to prioritize capital investment, the development of Canadian Tire Online will be limited to a further net investment of $10 million in 2001 to enable it to provide

Total Cubic Volume Shipped to Associate Dealers
(millions of cubic feet)



an expanded selection of spring and summer products as well as numerous products from CTR's annual catalogue. Also, additional investment during 2001 in *PartSource* stores will focus on the integration of the Auto Village/Drivers stores acquired in 2000 and on fine-tuning the *PartSource* business model.

During 2001, CTR will roll out several initiatives designed to increase comparable store sales through improved execution of retailing fundamentals. Customer Values, a set of core service principles developed in cooperation with the Associate Dealers, is expected to lead to a significant improvement in customers' in-store experience. The initial focus will be on successful deployment of two of these Values: ensuring that Associate Stores offer improved in-stock positions of regular and promotional merchandise; and providing customers with support from available, friendly and knowledgeable store employees.

CTR, Associate Dealers and vendors have developed a fully operational, on-demand 'e-learning' network to provide employees with the product knowledge they need to serve customers more effectively. The 20- to 30-minute modules covering facets of selected product categories will be delivered to store staff over the Internet beginning in 2001; development of the modules will be accelerated as the number of users grows. The e-learning network will also be a key tool in ensuring alignment between the Corporation, Associate Dealers and their staff on CTR's Customer Values initiatives.

CTR is also gaining even closer alignment with vendors by sharing more detailed and timely point-of-sale information. During 2001, CTR intends to roll out its ExchangePoint program to major vendors, which will enable those vendors to work more closely with CTR to develop, monitor and measure marketing programs and so improve sales. With ExchangePoint, CTR solidifies its position as a leading-edge retailer working closely with its vendors in analyzing retail information.

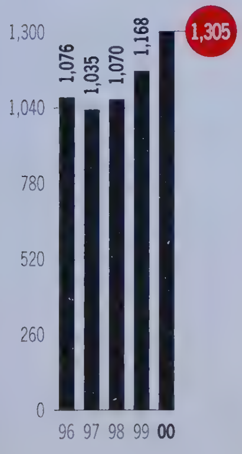
CTR has established aggressive targets for total and comparable store sales growth even with the possibility of lower economic growth in Canada in 2001 than that achieved in 2000. The combination of a first-year sales lift from 40 new-format stores, and a full year of contribution from the 89 Next Generation stores, 28 *PartSource* stores and the *Canadian Tire 'Money' on the Card* loyalty program will have a beneficial impact on the division's performance.

Canadian Tire Petroleum

2000 Operating Highlights

Petroleum's gross operating revenue was $853.5 million, up 37.2 percent from $622.0 million in 1999. Higher average pump prices resulting from the sharp rise in world oil prices, combined with record volume, drove this revenue increase.

Petroleum Gasoline Sales Volume
(millions of litres)

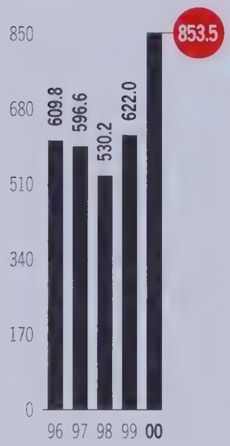


Canada's retail petroleum market grew at 1.5 percent in 2000. By comparison, Petroleum increased gasoline litre sales volume by 11.7 percent over 1999 volumes, indicating a significant gain in national market share during the year. Petroleum pumped a record 1.3 billion litres of gasoline at its 206 gas bars.

This strong performance resulted from a variety of initiatives designed to build volume. Petroleum benefitted from a full year of its successful marketing campaign, *It Pays to Buy Gas Here*, which gives customers incentives to buy gasoline and use discount coupons for merchandise purchases in Associate Stores. This message was reinforced throughout the year by a very popular campaign that offered consumers limited-time promotions on gasoline during numerous "Gas Relief" events. The multi-year program to upgrade sites to more attractive, high-capacity facilities also helped drive revenue growth. Four new sites and five redevelopments were completed during 2000, which brings the number of upgraded sites to 71 since the program was initiated in 1994. Sixteen Petroleum sites each include a car wash.

Operating earnings decreased 18.6 percent to $12.4 million from the $15.2 million earned in 1999. The decrease was due primarily to lower average margins. While operating costs

Petroleum Gross Operating Revenue*
(\$ millions)



*Gross Operating Revenue includes provincial gasoline taxes

continue to be well controlled, margins were impacted by the increase in crude oil costs during much of 2000. The volatile environment for retail gasoline prices was exacerbated by heightened competition in local markets across the country. By the fourth quarter of the year, relative stability had returned to world oil markets and margins normalized.

2001 Outlook

In the coming year, Petroleum will move towards closer integration with CTR and Financial Services to build on the success of the *Canadian Tire 'Money' on the Card* loyalty program and the *It Pays to Buy Gas Here* campaign. The continuing goal is to drive incremental traffic from Petroleum sites to Associate Stores and from stores to gas bars. As the market share gains in 2000 suggest, the total package of discounts available at Canadian Tire stores and gas bars presents a very competitive value proposition to consumers.

The ongoing redevelopment program in 2001 will focus on sites with the greatest opportunity. Petroleum expects that eight to ten sites will be built or rebuilt, some with car washes, at an investment of approximately \$7.5 million.

Overall, Petroleum expects that sales of gasoline, convenience and ancillary products will rise in 2001. Higher revenue and continuing success in expense management, combined with an expected return to more stable gasoline margins, should enable Petroleum to increase its contribution to Canadian Tire's consolidated results in the coming year.

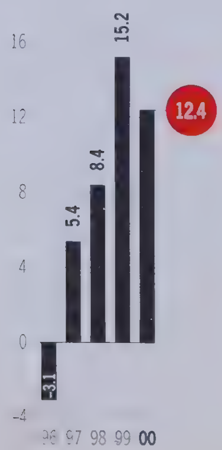
Canadian Tire Financial Services

2000 Operating Highlights

Financial Services' gross operating revenue totalled \$329.6 million in 2000, a 7.7 percent increase from the \$306.0 million reported in 1999. The growth in revenues stemmed primarily from a 15.5 percent increase in receivables balances attributable to portfolio conversions of Canadian Tire retail cards to the *Options* MasterCard during 1999 and 2000, a higher number of new accounts and the introduction of *Canadian Tire 'Money' on the Card*. Also, an increase in the number of cardholders led to significant growth in revenues from the insurance products marketed to credit customers.

Operating earnings rose 1.2 percent in 2000 to \$56.6 million from \$56.0 million in the prior year. Earnings were impacted by investments in the relaunch of Canadian Tire branded credit cards under the new *Canadian Tire 'Money' on the Card* loyalty program, new account acquisition expenses, and the changing mix of the portfolio from Canadian Tire retail card receivables to MasterCard receivables. Improved credit scoring and a strong economy led to reduced writeoffs and allowance rates for future credit losses on the Canadian Tire credit cards.

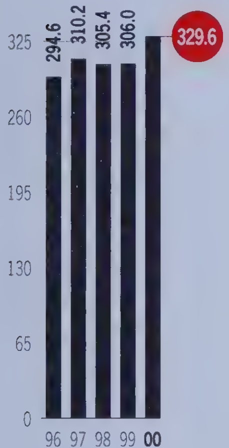
Petroleum Operating Earnings
(\$ millions)



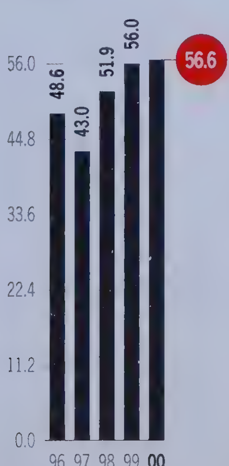
Since the 1950s, *Canadian Tire 'Money'* has been one of the most successful loyalty programs in retailing. In the mid-1990s, Canadian Tire customers were offered the *Options* loyalty program for credit purchases. In 2000, Financial Services relaunched the card loyalty program to capitalize on the popularity and equity of *Canadian Tire 'Money'*. The relaunch included the reissuance of 2.4 million credit cards. The new program gives users of Canadian Tire retail and MasterCard credit cards instant *Canadian Tire 'Money' on the Card* that can be redeemed for additional purchases in Associate Stores, just like *Canadian Tire 'Money'*.

Financial Services was also able to build its credit card portfolio during 2000 in a very competitive marketplace. By year end, the division had boosted its MasterCard accounts to 1.2 million, an increase of 28 percent over 1999; these accounts represented 47 percent of total Canadian Tire credit charge receivables at year end. Aggressive in-store marketing—a very cost-effective means of account acquisition—also added approximately 600,000 Canadian Tire retail cards during 2000, increasing the number of retail card accounts to 3.6 million. This continuing investment in low-cost card acquisition positions Financial Services for strong future revenue and earnings growth.

Financial Services Gross Operating Revenue
($ millions)



Financial Services Operating Earnings
($ millions)



2001 Outlook

Since 1997, Financial Services has been implementing a strategic change program intended to increase productivity, expand its growth potential and enable it to be more competitive in the Canadian credit card business. A variety of initiatives have been successfully completed, and today Financial Services is a strong, profitable niche player in the very competitive Canadian credit card marketplace.

During 2001, Financial Services will continue to simplify its business structure and processes to reduce operating expenses and focus its resources on building its higher-margin Canadian Tire branded retail and MasterCard portfolio. As a result, Financial Services will be exiting the third-party retail credit card business by winding down a major processing contract and has sold non-securitized third-party portfolios, including the sale of Hamilton Discount, a stand-alone subsidiary dedicated to the third-party credit business. The sale has freed up the capital employed to finance approximately $130 million in unsecuritized receivables while generating a premium on the sale of the receivables. The annualized negative impact of these actions on pre-tax earnings of Financial Services is estimated to be approximately $4 million, which will be offset by the growth of the Canadian Tire credit charge portfolio. In addition, these changes will enable Financial Services to focus all of its financial and human resources on the growth of its own brands.

Financial Services will also continue to make investments in future growth. The business unit intends to acquire a further 700,000 retail and MasterCard cardholders via its successful in-store hostess program and to convert some 150,000 low-risk retail cardmember accounts to the MasterCard portfolio. In addition, Financial Services will test a new in-store warranty service product that is designed to increase customer loyalty while stimulating growth in this profitable segment of the business.

FINANCIAL CONDITION

A primary objective of Canadian Tire is to maintain consistently strong earnings and cash flows, as well as a strong capital structure. This is essential to ensure that the Corporation maintains its ability to fund future growth at competitive rates and to build long-term shareholder value. Management and the Board of Directors review the Corporation's funding requirements at regular intervals.

Capital Structure

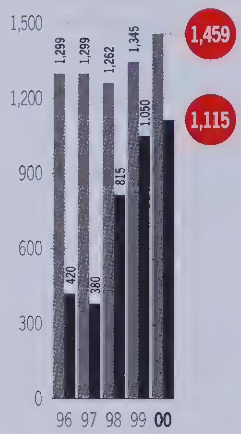
One of Canadian Tire's objectives in selecting appropriate funding alternatives is to manage its capital structure in such a way as to diversify its funding sources, minimize its risk and optimize its credit rating. Canadian Tire continues to rank as one of the highest-rated Canadian retailers and has ready access to debt markets at competitive interest rates. At year end, the Corporation's capital structure was as follows:

Capital Structure

	2000	1999
Shareholders' equity	**56.3%**	47.1%
Short-term debt	**—**	8.2
Long-term debt*	**42.9**	43.8
Future taxes	**0.8**	0.9
	100.0%	100.0%

* Includes current portion of long-term debt

Shareholders' Equity and Long-term Debt
($ millions)



Equity The year-end book value of Common and Class A Non-Voting Shares was $18.58 per share compared to $17.21 at the end of 1999. Total shareholders' equity increased to $1,459 million from $1,345 million in the prior year.

During 2000, the Corporation issued 1.8 million Class A Non-Voting Shares under various corporate and Dealer employee profit-sharing programs as well as under the Corporation's stock purchase, stock option and dividend reinvestment plans. In 1999, 2.5 million shares were issued under these plans.

The issuance of Class A Non-Voting Shares was offset by the purchase during 2000 of 1.4 million of these shares under the Corporation's Normal Course Issuer Bid Program ("Issuer Bid Program") on the Toronto Stock Exchange. During 1999, 2.3 million shares were purchased under that year's Issuer Bid Program.

During 2001, the Corporation intends to purchase up to 2.7 million Class A Non-Voting Shares through its Issuer Bid Program to offset the expected dilutive effect on earnings per share of various programs. A further 3.4 million of these shares may be purchased through the Issuer Bid Program if the purchases can be made on terms that serve the best interests of the Corporation and its shareholders.

Shares Outstanding At December 30, 2000, there were 75,129,333 Class A Non-Voting Shares and 3,423,366 Common Shares outstanding; this compares to 74,716,081 Class A Non-Voting Shares and 3,423,366 Common Shares outstanding at January 1, 2000.

Dividends Dividends declared on Common and Class A Non-Voting Shares were $31.3 million in 2000 compared to $30.8 million in 1999. The annual dividend on both classes of shares remained constant at $0.40 per share.

Short-term Debt The Corporation has a Commercial Paper program with an $800 million authorized limit. At year end, no commercial paper was outstanding compared to $234.0 million at January 1, 2000.

Credit ratings for the Corporation's commercial paper at year end were "A-1" from CBRS Inc. ("CBRS") and "R-1 (low)" from Dominion Bond Rating Service Limited ("DBRS").

The Corporation also has committed lines of credit that are equal to or greater than the maximum projected amount of outstanding commercial paper balances; none of these lines has been drawn upon. Undrawn lines of credit were $755 million at the end of 2000.

Long-term Debt In order to gain access to debt markets in a timely manner as required, Canadian Tire has filed a shelf prospectus with provincial securities commissions for the issuance of $500 million of Medium Term Notes. This program is evaluated every two years. The last renewal was completed in December 2000. Long-term debt, including the current portion, was $1,115.3 million at December 30, 2000 compared to $1,250.6 million at January 1, 2000.

The Corporation's long-term debt had ratings at year end of "A+" from CBRS and "A" from DBRS.

Like most issuers, Canadian Tire has provided covenants to certain of its lenders. All of the covenants were complied with during 2000 and 1999.

Funding Program

Funding Requirements

The Corporation's capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and share purchases under the Issuer Bid Program, are funded from a combination of sources. In 2000, this pool of funds comprised $65 million of proceeds from the issuance of long-term debt, $502 million of cash generated from operating activities and $115 million from the Corporation's sale of credit charge receivables, described below.

Capital Expenditures

Canadian Tire spent a total of $382.2 million on capital projects in 2000, a 1.3 percent increase over the $377.3 million spent in 1999. Real Estate expenditures totalled $292.3 million, most of which was for construction of new-format Associate Stores; this was a 3.0 percent decrease from the $301.4 million spent in 1999. In addition, CTR spent $50.3 million, with the major portion of the expenditures allocated to information systems development.

Capital expenditures by Financial Services were $13.4 million compared to $18.8 million in 1999; 2000 expenditures were primarily for improved information technology. Capital projects by Petroleum totalled $16.3 million in 2000 compared to $15.8 million in the prior year. The 2000 expenditures represent the third year of a program to upgrade Petroleum sites to the quality and look of CTR's new-format stores. Funds were also used to purchase and install point-of-sale infrastructure that gives customers the option to pay at the pump at 92 Petroleum locations.

2001 Capital Program

Canadian Tire's 2001 capital requirements, which are determined on a consolidated basis, are expected to total just over $422 million. Real Estate projects associated with the roll-out of new-format stores are planned at $270 million. Of the remaining $190 million to be invested in the CustomerLink supply-chain program, up to $110 million is planned for investment in 2001. Petroleum plans to spend $7.5 million for new builds, site upgrades and maintenance. The balance of planned capital expenditures is for CTR, Financial Services and the continuing upgrade of information technology across the Corporation.

Sources of Liquidity

The Corporation has access to funding well in excess of its 2001 requirements.

In 2001 it intends to fund its capital program through a combination of cash flow from operations, improvements in working capital, the use of both commercial paper ($800 million available) and Medium Term Note ($500 million available) programs and additional credit card receivable securitization. The Corporation is also exploring the potential for a real estate based financing transaction.

Working Capital The Corporation's commitment to better manage working capital in 2000 resulted in a reduction in net working capital of $150.0 million, which increased cash generated from operating activities to $502.3 million. The working capital improvement included a $60.7 million reduction in year-end merchandise inventories from 1999 levels.

Cash and Short-term Investments At year end, Canadian Tire's cash and short-term investments totalled $131.0 million, a 75.7 percent decrease from the $539.0 million held at January 1, 2000. The cash position at the end of 1999 was purposely high as a Y2K contingency. Significant among the uses of cash in 2000 were the repayment of $200.3 million of long-term debt and the elimination of a $234.0 million commercial paper liability. Short-term investments held at year end 2000 included Canadian and United States' government-guaranteed securities and high-quality commercial paper.

During 2000, cash generated from operations totalled $352.3 million; this was an 8.0 percent increase from $326.1 million in 1999. The 2000 amount represents cash flow from operations of $4.50 per share versus $4.22 in the prior year.

Canadian Tire Financial Services Receivables The objective of the Corporation's credit charge receivables securitization program is to provide Financial Services, and the Corporation, with a cost-effective, alternative source of funding. The securitization of credit charge receivables is an integral part of the program for funding growth.

In 2000, gross credit charge receivables grew to $1,309 million, up 16 percent from $1,130 million in 1999. Financial Services owned $453 million of net credit charge

Financial Services Net Credit Charge Receivables*

($ millions)

*2000 net credit charge receivables exclude $856 million of securitized receivables (1999 – $741 million, 1998 – $604 million, 1997 – $573 million, and 1996 – $470 million)

receivables at the end of 2000 and $389 million at the end of 1999. The balance of these credit charge receivables is securitized through the sale of co-ownership interests in the credit charge receivables to the *Canadian Tire Receivables Trust®* (the "Trust"). During 2001, the Corporation expects its gross credit charge receivables to grow by approximately $207 million. The majority of this growth will be funded from the sale of additional receivables.

Details of the outstanding asset-backed Notes issued by the Trust are listed in the table below. As the Trust is not controlled by the Corporation, its financial statements have not been consolidated with those of Canadian Tire.

Canadian Tire Receivables Trust Asset-Backed Notes Outstanding

(Dollars in millions)		2000		1999
Series 1997–1 Commercial Paper Notes [1]	**$**	**222**	$	228
7.48% Series 1995–1 Senior Notes [2]		**162**		198
7.83% Series 1995–2 Senior Notes [2]		**99**		99
6.26% Series 1999–1 Senior Notes [2]		**200**		200
6.665% Series 2000–1 Senior Notes [2]		**200**		—
7.94% Series 1995–1 Subordinated Notes [3]		**2**		2
8.46% Series 1995–2 Subordinated Notes [3]		**1**		1
Floating Rate Series 1999–1 Subordinated Notes [3, 4]		**4**		4
Floating Rate Series 2000–1 Subordinated Notes [3, 4]		**4**		—
Total	**$**	**894**	$	732

[1] The Notes will mature on a business day 364 days or less from the date of issuance.

[2] On December 1, 2000, December 1, 2002, January 5, 2004 and November 20, 2004, respectively, for the Series 1995–1, Series 1995–2, Series 1999–1 and Series 2000–1 Notes, the process for repayment of principal will commence, subject to earlier prepayment in certain events, from allocations to the Trust in the previous month. These final payment dates of June 1, 2001, June 1, 2003, August 5, 2004 and June 20, 2005, respectively, are estimated based upon certain assumptions regarding the performance of the credit charge receivables pool and other factors.

[3] Repayment of the principal amount of the Subordinated Notes will not begin until all principal and interest owing under the related series of Senior Notes have been fully repaid.

[4] Interest on the Series 1999–1 Subordinated Notes and Series 2000–1 Subordinated Notes is payable at Bankers' Acceptance rates plus 1.25%.

The success of these programs is due primarily to the Trust's ability to obtain funds by issuing debt instruments of the highest credit rating. The Trust's asset-backed Commercial Paper program has a rating of "A-1 (high)" from CBRS and "R-1 (high)" from DBRS. The Senior Notes received a rating of "AAA" from CBRS and "AAA" from DBRS. In all cases, these are the rating services' highest categories. The Subordinated Notes have a rating of "AA" from CBRS and "A (high)" from DBRS.

Capital Assets   Capital assets are another source of potential liquidity for Canadian Tire. All of the land and buildings owned by the Corporation are unencumbered.

Financial Ratios

Canadian Tire continues to have a strong balance sheet and financial ratios. These allow the Corporation relatively easy access to funding from financial markets. It is the Corporation's long-standing policy that the ratio of long-term debt to total capitalization not exceed 50 percent. Long-term debt as a percentage of total capital decreased to 42.9 percent from 43.8 percent in 1999.

The current ratio at year end was 1.4:1 compared to 1.3:1 at January 1, 2000. Interest coverage in 2000 on a cash-flow basis, after adjusting earnings from operations for depreciation and amortization, was 4.9 times compared to 4.7 times in 1999.

Funding Costs[1]

The following table summarizes the Corporation's total funding costs (excluding those of the Trust), including the impact of Canadian Tire's risk management program, which is discussed below.

(Dollars in thousands)	2000	1999
Interest expense[1]		
Long-term interest expense	**$ 74,851**	$ 84,542
Short-term interest expense	**19,836**	12,039
	$ 94,687	$ 96,581
Effective blended cost of debt	**6.6%**	6.9%

[1] Interest expense is increased or decreased by the interest rate differentials paid on interest rate swap contracts.

The effective average blended cost of debt decreased between 2000 and 1999 as $150 million of Medium Term Notes with a coupon of 6.25 percent issued in September 1999 essentially replaced $150 million of 10.40 percent Series 1 Debentures that matured in January 2000.

RISK MANAGEMENT

Canadian Tire is exposed to a number of risks in the normal course of its business that have the potential to affect the operating performance of the Corporation. These risks, and the actions taken to minimize them, are discussed below.

Retail Competitive Risk While Canadian Tire competes against national and regional retailers in all major markets across Canada, there is no one organization or type of business that competes directly with all product lines available at Associate Stores. However, several of these retailers, such as department stores, mass merchandisers, home-improvement warehouse operators and specialty marketers are currently in one or more of the business segments in which Associate Stores compete.

CTR actively monitors competitive developments in its markets, particularly its performance relative to competitors. This analysis enables it to determine the competitiveness within a market or business segment and take the necessary steps to both protect and build market share.

Canadian Tire also has core strengths that reduce its competitive risk. Foremost is the network of Associate Dealers whose investment and commitment to their Associate Stores provides a significant competitive advantage. In addition, a primary strength is the convenience of location of their 441 Associate Stores across Canada. Canadian Tire is enhancing this advantage with the ongoing roll-out and refinement of new-format stores. These stores are proving to be very effective at competing with different types of retailers and formats. Since 1994, the Corporation has committed a total of approximately $1.25 billion to this very successful program.

Internal and independent consumer surveys indicate that customers have very high awareness of, and loyalty to, Canadian Tire. In the most recent survey, 59 percent of those interviewed had shopped at an Associate Store within the last 30 days. In addition, Associate Stores hold strong market-share positions in many of the product categories in which they do business. This is particularly evident in automotive and hardware lines and in selected seasonal and sporting goods categories.

These core strengths are reinforced by continuous strategic and operational reviews of core product categories providing a comprehensive and up-to-date awareness of CTR's market position, opportunities and threats. This commitment results in ongoing innovation

at Canadian Tire, such as new-format stores, Next Generation merchandising, Canadian Tire Online and *PartSource*, all of which are expected to contribute long-term growth in revenues, market share and profitability.

Specific initiatives designed to enhance CTR's competitive position, and thus reduce the Corporation's retail competitive risk, are described in the CTR section earlier in this Discussion.

Environmental Risk Canadian Tire's environmental policy affirms management's belief that environmental protection is an essential part of Canadian Tire's corporate mission. Environmental programs are intended to be in the forefront of the retail industry in protecting the environment. In addition, the Corporation's forward-looking procedures for the identification and mitigation of environmental risk, as well as the Corporation's record of accomplishment in this area, have enabled it to purchase environmental insurance coverage at very favourable premiums.

During 2000, the Corporation continued to ensure that management systems were in place to address environmental issues, policies and procedures. The Canadian Tire Board of Directors and its Audit and Social Responsibility Committees receive quarterly and annual reports on environmental and health and safety issues, policies and procedures.

Canadian Tire carries out regular assessments of facilities and procedures to ensure that its operations meet regulatory and corporate requirements. In addition, the Corporation has initiated many proactive programs that set new standards of environmental management. These programs are discussed in more detail under 'Environmental, Health and Safety Stewardship' on page 50.

Concentration Risk Canadian Tire, by the national nature of its operations, is relatively well diversified across Canada's regional economies. Management believes this makes the Corporation less susceptible to adverse economic conditions in specific regions of the country.

With regard to credit privileges extended to Canadian Tire customers by Financial Services, the card base comprises more than 4.5 million holders across Canada. Approximately half reside in Ontario and Quebec, with the balance distributed in the remaining provinces. In addition, concentration risk is limited with regard to receivables due from Associate Dealers, whose businesses are geographically dispersed. The largest trade receivable balance owed to the Corporation by any one Associate Dealer during 2000 was less than three percent of total Associate Dealer receivables.

Commodity Price Risk The operating performance of Petroleum is very sensitive to the pricing actions of major competitors in the retail gasoline market, as was experienced during 2000. During the past four years, Petroleum has become as competitive as the 'best in class' gasoline retailers by significantly reducing its operating costs. This gives the division greater flexibility during periods of extreme competition. In addition, Petroleum has a very competitive contract with a major supplier for the acquisition of gasoline that helps offset, to some degree, the impact of commodity price fluctuations.

Seasonality Risk CTR's offering features many seasonal products and as a result, experiences some seasonal variances in its business. Accordingly, in most years the Corporation records stronger gross operating revenues in the second and fourth quarters and higher consolidated earnings before income taxes in the third quarter. Revenue and earnings in the first quarter are typically the lowest. To improve responsiveness to these seasonal variances, CTR works with its suppliers to plan the timing of their shipments and, where possible, to shorten lead times on product orders. However, it is impossible to entirely remove the risks and uncertainties associated with the seasonal nature of CTR's product offering.

Capital Management Risk

It is important to note that, in implementing financial strategies to reduce risk, Canadian Tire's Treasury department does not operate as a profit centre. Controls are in place to detect and prevent speculative activity.

Financial Products Risk It is the Corporation's policy to identify and manage currency, interest rate and commodity price risk proactively and conservatively.

There are typically two parties to a financial transaction. The successful completion of the transaction, and thus the mitigation of risk, depends on the ability of both parties to meet their financial commitments under the contract. In the case of Canadian Tire, counterparty credit risk is considered to be negligible as the Corporation restricts the counterparties that it deals with to highly rated financial institutions. A minimum rating of "AA" by CBRS and "AA" by DBRS is required.

Foreign Exchange Risk The Corporation's guideline is to hedge a minimum of 75 percent of purchases of foreign-denominated goods and services that are expected to be completed within a four- to six-month period.

Credit Charge Receivables Risk Credit Risk is the risk of loss due to the inability or unwillingness of a counterparty to fulfill its payment obligations. Canadian Tire through its Financial Services business grants credit to its customers on Canadian Tire credit cards with the intention of increasing the loyalty of those customers to shop at Canadian Tire Associate Stores and increasing profitability to the shareholder. With the granting of credit, the Corporation assumes certain credit risks.

Financial Services minimizes those credit risks in three areas of the credit process.

- When granting credit, sophisticated automated credit scoring models are used to determine the creditworthiness of each customer. These credit scoring processes are constantly improved based on new information.
- When monitoring the credit charge portfolio, Financial Services utilizes the latest technology to execute credit decisions by individual customers. These tools allow Financial Services to limit credit risk exposure.
- When collecting credit charge receivables, Financial Services has adopted a collection modeling technology that has significantly improved the effectiveness of the collection process.

Through these methods Canadian Tire has significantly improved the quality of its credit charge portfolio. In addition, with the conversion of over one million qualified credit customer accounts over to the Canadian Tire MasterCard from the retail card, credit risk has been further diminished.

Interest Rate Risk This risk reflects the sensitivity of Canadian Tire's financial condition to movements in interest rates. The Corporation's exposure is substantially limited to the impact of interest rate fluctuations on cash and short-term investments, commercial paper and Medium Term Notes. As described in Note 13 to the Consolidated Financial Statements, consolidated interest rate sensitivity was minimized at the end of 2000 and 1999. A one percent change in interest rates would not materially affect the Corporation's earnings, cash flow or financial position.

Substantially all of the Corporation's long-term debt has been issued at fixed rates and is thus not sensitive to interest rate movements. Further details are provided in the 'Funding Costs' section on page 31.

Although interest rate sensitivity is primarily managed on a consolidated basis, the Corporation also reviews interest rate sensitivity by business unit. Most of Financial Services' revenue is not interest rate sensitive as it is generated from Canadian Tire's retail cards and the *Options* MasterCard, which each carry a fixed interest rate. Financial Services' funding requirements were reduced during 2000 and 1999 primarily due to the sale of credit charge receivables through the securitization program described on page 29. The balance of Financial Services' funding requirements in 2000 and 1999, however, was met with the issuance of floating rate debt, which makes Financial Services' results somewhat sensitive to changes in interest rates. This impact has been mitigated at a consolidated level to reduce the sensitivity of the interest rate exposure.

Canadian Tire monitors market conditions and the impact of interest rate fluctuations on the Corporation's fixed/floating rate exposure on an ongoing basis.

The management of Canadian Tire Corporation, Limited is responsible for the integrity of the accompanying Consolidated Financial Statements and all other information in the annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles, which recognize the necessity of relying on some best estimates and informed judgements. All financial information in the annual report is consistent with the Consolidated Financial Statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Corporation's systems of internal accounting control. These systems are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Management meets the objectives of internal accounting control on a cost-effective basis through: the prudent selection and training of personnel, adoption and communication of appropriate policies, and employment of an internal audit program.

The Board of Directors oversees management's responsibilities for financial statements primarily through the activities of its Audit Committee, which is composed solely of Directors who are neither officers nor employees of the Corporation. This Committee meets with management and the Corporation's independent auditors, Deloitte & Touche LLP, to review the financial statements and recommend approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment and remuneration of the Corporation's auditors. The Audit Committee also meets with the auditors, without the presence of management, to discuss the results of their audit, their opinion on internal accounting controls, and the quality of financial reporting.

The financial statements have been audited by Deloitte & Touche LLP, whose appointment was ratified by shareholder vote at the annual shareholders' meeting. Their report is presented below.

Wayne C. Sales

Wayne C. Sales **President and Chief Executive Officer**

Huw Thomas

J. Huw Thomas **Executive Vice-President, Finance and Administration and Chief Financial Officer**

March 1, 2001

AUDITORS' REPORT

To the Shareholders, Canadian Tire Corporation, Limited

We have audited the Consolidated Balance Sheets of Canadian Tire Corporation, Limited as at December 30, 2000 and January 1, 2000 and the Consolidated Statements of Earnings and Retained Earnings and Cash Flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Corporation as at December 30, 2000 and January 1, 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants **Toronto, Ontario** March 1, 2001

(Dollars in thousands except per share amounts) For the years ended	December 30, 2000	January 1, 2000
Gross operating revenue	**$ 5,207,574**	$ 4,728,259
Operating expenses		
Cost of merchandise sold and all expenses except for the undernoted items	**4,729,112**	4,254,798
Interest		
Long-term debt	**74,851**	84,542
Short-term debt	**19,836**	12,039
Depreciation and amortization	**127,021**	128,342
Employee profit sharing plans (Note 8)	**16,067**	21,439
Total operating expenses	**4,966,887**	4,501,160
Earnings before income taxes	**240,687**	227,099
Income taxes (Note 9)		
Current	**97,370**	89,314
Future	**(4,705)**	(8,144)
Total income taxes	**92,665**	81,170
Net earnings	**$ 148,022**	$ 145,929
Net earnings per share	**$ 1.89**	$ 1.89
Weighted average number of Common and Class A Non-Voting Shares outstanding	**78,349,097**	77,211,467
Retained earnings, beginning of year	**$ 773,522**	$ 734,042
Adoption of new accounting standard for post retirement benefits (Notes 1, 6)	**(9,234)**	—
Adoption of new accounting standard for future income taxes (Note 1)	**(637)**	—
Retained earnings, beginning of year, as restated	**763,651**	734,042
Net earnings	**148,022**	145,929
Dividends	**(31,328)**	(30,845)
Repurchase of Class A Non-Voting Shares (Note 7)	**(20,216)**	(75,604)
Retained earnings, end of year	**$ 860,129**	$ 773,522

(Dollars in thousands) For the years ended	December 30, 2000	January 1, 2000
Cash generated from (used for):		
Operating activities		
Net earnings	$ 148,022	$ 145,929
Items not affecting cash		
Depreciation and amortization of property and equipment	119,726	106,257
Net provision for credit charge receivables	73,665	53,946
Amortization of other assets	7,295	22,085
Future tax liability	1,820	(8,144)
Post retirement benefits (Note 6)	1,432	—
Loss on disposals of property and equipment	354	6,068
Cash generated from operations	352,314	326,141
Changes in other working capital components (Note 10)	150,024	(2,688)
Cash generated from operating activities	502,338	323,453
Investing activities		
Additions to property and equipment	(382,172)	(377,349)
Investment in credit charge receivables (Note 2)	(253,043)	(206,954)
Long-term receivables and other assets	(24,800)	(90,913)
Proceeds on disposition of property and equipment	29,085	19,457
	(630,930)	(655,759)
Financing activities		
Commercial paper	(234,025)	52,257
Repayment of long-term debt	(200,292)	(951)
Dividends	(31,328)	(30,845)
Securitization of credit charge receivables	115,217	136,268
Issuance of long-term debt	65,000	435,634
Class A Non-Voting Share transactions (Note 7)	5,999	(29,429)
	(279,429)	562,934
Cash (used) generated in the year	(408,021)	230,628
Cash position, beginning of year	539,020	308,392
Cash position, end of year (Note 10)	$ 130,999	$ 539,020

(Dollars in thousands) As at	December 30, 2000	January 1, 2000
ASSETS		
Current assets		
Cash and short-term investments	**$ 130,999**	$ 539,020
Accounts receivable	**515,130**	483,559
Credit charge receivables (Note 2)	**453,412**	389,251
Merchandise inventories	**412,381**	473,052
Prepaid expenses and deposits	**15,777**	16,952
Total current assets	**1,527,699**	1,901,834
Long-term receivables and other assets (Note 3)	**122,867**	105,362
Property and equipment (Note 4)	**2,097,095**	1,864,088
Total assets	**$ 3,747,661**	$ 3,871,284
LIABILITIES		
Current liabilities		
Commercial paper	**$ —**	$ 234,025
Accounts payable and other	**1,038,471**	917,071
Income taxes payable	**85,965**	89,480
Current portion of long-term debt (Note 5)	**315**	200,292
Total current liabilities	**1,124,751**	1,440,868
Long-term debt (Note 5)	**1,115,027**	1,050,342
Long-term liability for post retirement benefits (Note 6)	**26,579**	8,750
Future tax liability	**21,865**	26,570
Total liabilities	**2,288,222**	2,526,530
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	**595,116**	568,901
Accumulated foreign currency translation adjustment	**4,194**	2,331
Retained earnings (Note 7)	**860,129**	773,522
Total shareholders' equity	**1,459,439**	1,344,754
Total liabilities and shareholders' equity	**$ 3,747,661**	$ 3,871,284

Gilbert S. Bennett **Director**

Maureen J. Sabia **Director**

1. Significant Accounting Policies

Basis of consolidation

The Consolidated Financial Statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries.

Fiscal year

The fiscal year of the Corporation consists of a fifty-two or fifty-three week period ending on the Saturday closest to December 31. The results of certain subsidiaries which have different year ends from the Corporation have been included in the financial statements for the twelve months ended December 31.

Revenue recognition

The Corporation's shipments of merchandise to Associate Dealers (retail store owner-operators) are recorded as revenue when delivered. Revenue on the sale of petroleum products is recorded upon sale to the consumer. Merchant fees on credit charge receivables are taken into revenue at the time new receivables are recorded. Service charges are accrued each month on balances outstanding at each account's billing date.

Cash and short-term investments

For purposes of the Consolidated Financial Statements, cash is defined as cash and short-term investments less bank indebtedness. Short-term investments held include Canadian and United States government securities and notes of other creditworthy parties due within three months.

Merchandise inventories

Merchandise inventories are valued at the lower of cost and estimated net realizable value, with cost being determined on a first-in, first-out basis.

Goodwill

Goodwill represents the excess of the cost over the value assigned to net identifiable assets acquired at the date of acquisition and is amortized on a straight-line basis over a maximum period of 10 years. The Company assesses the recoverability of goodwill by determining whether the amortization over the remaining life can be recovered through projected undiscounted future operating results.

Property and equipment

Property and equipment are stated at cost. The cost of real estate includes all direct costs, financing costs on specific and general corporate debt relating to major projects, and certain pre-development costs. Depreciation is provided for using the declining balance method commencing in the month that the equipment or facilities are placed into service. Amortization of leasehold improvements is provided for on a straight-line basis over the terms of the respective leases. Purchased computer software, including direct implementation costs, is amortized on a straight-line basis over a period of up to five years. If property and equipment is subject to permanent impairment, additional depreciation or a writedown is provided.

Debt discount and other issue expenses

Debt discount and other issue expenses are included as other assets on the Consolidated Balance Sheets and are amortized over the term of the respective debt issues.

Deferred expenses

The Corporation capitalizes both direct and indirect costs with respect to ventures which are in the development stage. Capitalization of costs continues until formal operations have commenced, at which time the deferred costs are amortized over a three-year period. Should a venture be abandoned during the development stage, all capitalized costs will be immediately expensed. Canadian Tire Financial Services defers costs pertaining to the acquisition of most new businesses. These acquisition costs are amortized over the terms of the related contracts. All of the above costs are included as other assets on the Consolidated Balance Sheets.

Translation of foreign currencies

The components of the Consolidated Statements of Earnings related to foreign subsidiaries are translated to Canadian dollars using average currency exchange rates in effect during the period and assets and liabilities are translated at the exchange rates in effect at the end of the accounting period. Gains and losses on translation are included in net earnings, except for

the exchange gains or losses related to investments in self-sustaining foreign operations. Translation adjustments on self-sustaining foreign operations are included in a separate component of shareholders' equity.

Stock-based compensation plans
The Corporation has five stock-based compensation plans, which are described in Note 8. No compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of shares is credited to share capital. Compensation expense is recognized for the Corporation's contributions to the Employee Profit Sharing Plans, the Employee Stock Purchase Plan, the Deferred Share Unit Plan and the Restricted Share Unit Plan.

Post retirement benefits other than pensions
Effective January 2, 2000 the Corporation changed its method of accounting for post retirement benefits to conform to the recommendations of The Canadian Institute of Chartered Accountants. The financial statements for the year ended December 30, 2000 have been prepared on this new basis and the comparative figures for the year ended January 1, 2000 have not been restated.

Under the new method, costs for employee future benefits are accrued over the periods in which the employees earn the benefits. The discount rate used for determining the current service cost and the liability for future benefits is the current interest rate at the balance sheet date on high-quality fixed income investments with maturities that match the expected maturity of the obligations.

The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of salary escalation, retirement ages of employees, employee turnover, and expected health care costs.

The most recent actuarial valuation of the obligation was performed as at January 2, 2000. Past service costs have been recognized retroactively. As a result of the adoption, at January 2, 2000, the accrued benefit liability increased by $16.4 million, and retained earnings decreased by $9.2 million.

Future tax liability
Effective January 2, 2000, the Corporation changed its method of accounting for income taxes to conform with the recommendations of The Canadian Institute of Chartered Accountants. As a result of the adoption, at January 2, 2000, the future tax liability (formerly referred to as deferred income taxes) increased by $637,000 and retained earnings decreased by the same amount. The change in accounting policy was adopted retroactively with no restatement of prior period financial statements.

Financial instruments
Interest rate swap contracts are used to hedge current and anticipated interest rate risks. Interest to be paid or received under such swap contracts is recognized over the life of the contracts as adjustments to interest expense. Unrealized gains or losses resulting from market movements are not recognized.

Foreign currency risks related to certain purchased goods and services are hedged. Any costs associated with these purchases are included in the Canadian dollar cost of these products.

Site-restoration costs
Liabilities have been recorded for site-restoration costs for known obligations as well as when it is probable that obligations will be incurred and the amounts can be reasonably estimated.

Use of estimates
The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

2. Credit Charge Receivables

The Corporation sells undivided co-ownership interests in a pool of credit charge receivables to an independent trust (the "Trust"). No gain or loss has been recorded on these sales by the Corporation. As at December 30, 2000, the Trust's undivided co-ownership interest in the pool of credit charge receivables was $856 million (1999 – $741 million). Any income generated on the sold co-ownership interest in excess of the Trust's stipulated share of service charges is retained by the Corporation. The Trust's recourse to the Corporation is limited and is based on income earned on the receivables. As the Trust is not controlled by the Corporation, it has not been consolidated in these financial statements.

3. Long-term Receivables and Other Assets

(Dollars in thousands)	2000	1999
Long-term portfolio investment, at cost	**$ 75,000**	$ 75,000
Other assets	**23,791**	16,124
Goodwill	**10,007**	331
Long-term debt issue costs	**6,491**	7,869
Loans receivable	**4,929**	5,605
Mortgages receivable	**2,649**	433
	$ 122,867	$ 105,362

Long-term portfolio investment

Long-term portfolio investment is an investment in preferred shares of a creditworthy third party.

Goodwill

Goodwill of $10.0 million (1999 – $331,000) is stated at cost less accumulated amortization of $2.5 million (1999 – $1.9 million).

Loans receivable

Loans receivable include interest-free loans that have been provided to certain senior executives. These loans have various maturity dates extending to 2010.

4. Property and Equipment

	2000			1999			
(Dollars in thousands)	**Cost**	**Accumulated Depreciation and Amortization**	**Net Book Value**	Cost	Accumulated Depreciation and Amortization	Net Book Value	Depreciation Amortization Rate/Term
Land	**$ 545,963**	**$ —**	**$ 545,963**	$ 472,108	$ —	$ 472,108	
Buildings	**1,611,426**	**479,882**	**1,131,544**	1,451,228	443,492	1,007,736	4%–10%
Fixtures and equipment	**346,425**	**239,901**	**106,524**	322,642	219,012	103,630	10%–33%
Leasehold improvements	**167,159**	**49,041**	**118,118**	155,750	43,120	112,630	Term of lease
Computer software	**151,334**	**70,606**	**80,728**	119,327	41,200	78,127	Up to 5 years
Work in progress	**114,218**	**—**	**114,218**	89,857	—	89,857	
	$ 2,936,525	**$ 839,430**	**$ 2,097,095**	$2,610,912	$ 746,824	$1,864,088	

Included in property and equipment is property held for disposal with a cost of $147,014,000 (1999 – $145,690,000) and accumulated depreciation of $55,855,000 (1999 – $53,917,000). The Corporation capitalized interest of $4,926,000 (1999 – $4,474,000) for property and equipment under construction. The interest capitalized related to the Corporation's new-format store program.

5. Long-term Debt

(Dollars in thousands)	2000	1999
Obligation under mortgage payable	**$ 27**	$ 342
Unsecured debt		
Medium Term Notes at rates from		
Bankers' Acceptance plus 0.55% to 8.20% maturing at various dates to 2028	**965,000**	900,000
12.10% Debentures, maturing May 10, 2010 (2010 Debentures)	**150,000**	150,000
Total – net of current portion	**$ 1,115,027**	$ 1,050,342

Medium Term Notes

Certain of the Medium Term Notes are redeemable by the Corporation, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption.

2010 Debentures

The 2010 Debentures are redeemable by the Corporation, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption. Commencing with the quarter ended October 1, 1994 and for each subsequent quarter, the Corporation may (subject to availability and pricing) be required to purchase up to 1.15 percent of the 2010 Debentures outstanding at the beginning of such quarter. To date, no such purchases have been made.

Debt covenants

The Corporation has provided covenants to certain of its lenders. All of the covenants were complied with during 2000 and 1999.

Repayment requirements

(Dollars in thousands)	2001	2002	2003	2004	2005	Thereafter	Total
Mortgage payable	$ 315	$ 27	$ —	$ —	$ —	$ —	$ 342
Medium Term Notes	—	30,000	200,000	235,000	—	500,000	965,000
2010 Debentures	—	—	—	—	—	150,000	150,000
	$ 315	30,027	200,000	235,000	$ —	$ 650,000	$ 1,115,342

6. Post Retirement Benefits Other than Pensions

The Corporation provides certain health care, life insurance and other benefits, but not pensions, for certain retired employees pursuant to Corporate policy. Information about the Corporation's liability for post retirement benefits is as follows:

(Dollars in thousands)	2000	1999
Accrued post retirement benefit obligation at beginning of year [1, 2]	**$ 25,147**	$ 8,750
Total current service cost	**761**	882
Interest cost	**1,839**	—
Post retirement benefit expense [3]	**2,600**	882
Post retirement benefits paid	**(1,168)**	(882)
Accrued post retirement benefit obligation at end of year [4]	**$ 26,579**	$ 8,750

1 Opening accrued benefit obligation as at January 2, 2000 represents the actuarial present value of post retirement benefits attributed to employee service rendered to date. The accrued benefit obligation increased by $16.4 million as a result of the change in accounting policy (Note 1).

2 In prior years, the Corporation estimated an obligation to retirees at the time an employee retired using management's estimate of the long-term interest rate.

3 The effect of the change in accounting policy is to increase fiscal 2000 pre-tax benefit expense by approximately $1.4 million.

4 There are no plan assets, as funding is provided when benefits are paid. The accrued benefit obligation represents the long-term liability for post retirement benefits recognized on the Corporation's balance sheets.

The significant actuarial assumptions used for the valuation of the Corporation's accrued benefit for the year ended December 30, 2000 and benefit expense for 2000 are as follows: Discount rate – 7.25%, Employee turnover – 8.0%, Salary escalation – 3.0%, Rate of increase in per capita health care costs – 9.0%, Rate of increase in per capita dental care costs – 4.5%. The rate of increase in per capita health care costs was assumed to decrease by 1.0% annually to 5.0% in 2004, and remain constant at 4.5% for 2005 and thereafter.

7. Share Capital

(Dollars in thousands)			**2000**		1999
Authorized					
3,423,366	Common Shares (1999 – 3,423,366)				
100,000,000	Class A Non-Voting Shares				
Issued					
3,423,366	Common Shares (1999 – 3,423,366)	**$**	**177**	$	177
75,129,333	Class A Non-Voting Shares (1999 – 74,716,081)		**594,939**		568,724
		$	**595,116**	$	568,901

During 2000 and 1999, the Corporation reissued and repurchased Class A Non-Voting Shares. Reissuances are recorded at the fair value of shares issued. The net excess or shortage of the reissue price over the average cost per share held in treasury was added to or deducted from retained earnings.

During 1999, the Corporation changed its accounting policy whereby repurchases were charged to share capital at the average cost per share outstanding and the excess was charged to retained earnings. Reissuances were recorded at the fair value of shares issued. Prior to 1999, for accounting purposes, shares repurchased were considered to be held in treasury at cost and available for reissue. The net excess of the reissue price over the average cost per share held in treasury was added to retained earnings. The effect of the above noted change in accounting policy on total shareholders' equity was nil.

The following transactions occurred with respect to Class A Non-Voting Shares during 2000 and 1999:

	2000		1999	
(Dollars in thousands)	**Number**	**$**	Number	$
Shares outstanding at the beginning of the year	**74,716,081**	**568,724**	74,469,278	522,549
Issued	**1,813,252**	**37,120**	2,546,803	62,475
Repurchased	**(1,400,000)**	**(31,121)**	(2,300,000)	(91,904)
Excess of repurchase price over average cost	**—**	**20,216**	—	75,604
Shares outstanding at the end of the year	**75,129,333**	**594,939**	74,716,081	568,724

From December 31, 2000 to March 1, 2001, the Corporation issued 161,670 Class A Non-Voting Shares for total proceeds of $3,283,000.

Conditions of Class A Non-Voting Shares and Common Shares

The holders of Class A Non-Voting Shares are entitled to receive a preferential cumulative dividend at the rate of 1¢ per share per annum. After payment of a dividend on each of the Common Shares at the same rate, the holders of the Class A Non-Voting Shares and the Common Shares are entitled to further dividends declared and paid in each year in equal amounts per share. In the event of liquidation, dissolution or winding-up of the Corporation, the Class A Non-Voting Shares and Common Shares rank equally with each other on a share-for-share basis.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders but, except as provided by the *Business Corporations Act* (Ontario) and as hereinafter noted, are not entitled to vote thereat. Holders of Class A Non-Voting Shares, voting separately as a class, are entitled to elect the greater of: i. Three directors or ii. One-fifth of the total number of the Corporation's directors.

Common Shares can be converted, at any time, into Class A Non-Voting Shares on a share-for-share basis. The authorized number of Common Shares cannot be increased without the approval of the holders of Class A Non-Voting Shares. Neither the Class A Non-Voting Shares nor the Common Shares can be changed by way of subdivision, consolidation, reclassification, exchange or otherwise unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

Should an offer to purchase Common Shares be made to all or substantially all of the holders of Common Shares (other than an offer to purchase both Class A Non-Voting Shares and Common Shares at the same price and on the same terms and conditions) and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon be entitled to one vote per share at all meetings of the shareholders.

The foregoing is a summary of certain of the conditions attached to the Class A Non-Voting Shares of the Corporation and reference should be made to the Corporation's articles for a full statement of such conditions.

As at December 30, 2000, the Corporation had dividends payable to Class A Non-Voting and Common shareholders of $7.8 million (1999 – $7.8 million).

8. Stock-Based Compensation Plans

The Corporation has five stock-based compensation plans, which are described below.

Employee Profit Sharing Plans

The Corporation offers its employees a Deferred Profit Sharing Plan (DPSP) and an Employee Profit Sharing Plan (EPSP). The amount of the award is contingent on the Corporation's profitability. The amount available is based on 6.75 percent of pre-tax profits, after certain adjustments, and is contributed to a Trustee-managed investment portfolio. The DPSP and the EPSP are required to invest and maintain 10 percent of their holdings in the Corporation's Class A Non-Voting Shares.

In 2000, the Corporation contributed $16.1 million (1999 – $21.4 million) under the terms of the DPSP and the EPSP towards the Trustee-managed investment portfolio. As at December 30, 2000, the DPSP and the EPSP held 419,280 Common Shares (1999 – 419,280) and 3,794,914 Class A Non-Voting Shares (1999 – 3,213,660) of the Corporation.

The participants of the EPSP have elected to terminate the Plan during 2001. Subsequent to year end the assets will be distributed to participants and no further contributions will be made.

Employee Stock Purchase Plan

The Corporation offers an Employee Stock Purchase Plan (ESPP) to its employees, whereby employees can choose to have up to 10 percent of their annual base earnings withheld to purchase Class A Non-Voting Shares of the Corporation. The purchase price of the shares is calculated monthly and is equal to the weighted average share price at which Class A Non-Voting Shares of the Corporation trade on the Toronto Stock Exchange for a given month. The Corporation may elect to match up to 50 percent of employee contributions to the ESPP.

The Corporation contributed $7.9 million in 2000 (1999 – $7.4 million), under the terms of the ESPP, towards the purchase of Class A Non-Voting Shares. These shares were purchased on the Toronto Stock Exchange. Under the Plan, the Corporation issued 817,673 Class A Non-Voting Shares in 2000 (1999 – 404,201) to employees.

Deferred Share Unit Plan

The Corporation offers a Deferred Share Unit Plan (DSUP) for members of the Board of Directors. Under the DSUP each director may elect to receive all or a percentage of his or her annual compensation in the form of notional Class A Non-Voting Shares of the Corporation called deferred share units (DSUs). The issue price of each DSU is equal to the weighted average share price at which Class A Non-Voting Shares of the Corporation trade on the Toronto Stock Exchange during the 10-day period prior to the last day of the quarter in which the DSU is issued. A director must elect to participate or change his or her participation in the DSUP prior to the beginning of a fiscal quarter. The DSU account of each director includes the value of dividends, if any, as if reinvested in additional DSUs. A director is not permitted to convert DSUs into cash until retirement from the Board. The value of the DSUs, when converted to cash, will be equivalent to the market value of the Class A Non-Voting Shares at the time the conversion takes place. The value of the outstanding DSUs as at December 30, 2000 was $331,149 (1999 – $90,594).

Restricted share units

The Corporation has granted restricted share units (RSUs) to certain employees which entitle the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the restriction period, multiplied by an applicable multiplier if specific performance-based criteria are met. The restriction period is three years less 30 days from the date of grant. Compensation expense is accrued over the term of the RSU based on the expected total compensation to be paid out at the end of the restriction period, factoring in the probability of any performance-based criteria being met during that period. The compensation expense recorded for the year ended December 30, 2000, in respect of this plan, was $631,249 (1999 – nil).

Stock options

The Corporation has granted options to certain employees for the purchase of Class A Non-Voting Shares, with vesting occurring on a graduated basis over a four-year period. The exercise price of each option equals the weighted average closing price of Class A Non-Voting Shares on the Toronto Stock Exchange for the 10-day period preceding the date of grant. Options may be exercisable over a term of 10 years. The Corporation is authorized to grant options to its employees up to 8.4 million shares of Class A Non-Voting Shares.

The Corporation uses the intrinsic value method of accounting for Stock Option Plans. There is no compensation expense recognized for the options since on the day of the grant the options exercise price is not less than the market price of the underlying stock. When the options are exercised, the proceeds received are credited to Share Capital.

The outstanding options as at December 30, 2000 were granted at prices between $11.06 and $40.82 and expire between March 2001 and November 2010.

Stock option transactions during 2000 and 1999 were as follows:

	2000		1999	
(Dollars in thousands)	**Number of Shares**	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**2,068,877**	**$ 28.70**	3,037,999	$ 19.22
Granted	**2,213,000**	**21.53**	703,750	39.49
Exercised	**(63,834)**	**14.25**	(1,554,922)	15.08
Forfeited and expired	**(335,914)**	**29.35**	(117,950)	28.65
Outstanding at end of year	**3,882,129**	**$ 24.79**	2,068,877	$ 28.70

The following table summarizes information about stock options outstanding at December 30, 2000:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of Outstanding Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/30/2000	Weighted Average Exercise Price
$37.72 to 40.82	**534,000**	**8.14**	**$ 40.48**	**138,274**	**$ 40.44**
31.61 to 36.61	**476,990**	**7.54**	**32.34**	**192,945**	**32.07**
19.20 to 28.92	**1,352,592**	**8.46**	**25.87**	**234,918**	**25.62**
11.06 to 18.41	**1,518,547**	**8.21**	**15.94**	**480,047**	**14.79**
$11.06 to 40.82	**3,882,129**	**8.21**	**$ 24.79**	**1,046,184**	**$ 23.80**

Since 1988 the Corporation has followed a no dilution policy.

9. Income Taxes

(Dollars in thousands)	2000	1999
Income taxes based on a combined Canadian federal and provincial income tax rate of 42.9% (1999 – 43.6%)	**$ 103,182**	$ 98,993
Adjustment to income taxes resulting from:		
Large corporations tax	**6,118**	6,372
Lower income tax rate on earnings of foreign subsidiaries	**(17,995)**	(23,017)
Non-taxable dividends	**482**	—
Other	**878**	(1,178)
	$ 92,665	$ 81,170

10. Notes to the Cash Flow Statement

Working capital components

(Dollars in thousands)	2000	1999
Cash generated from (used for):		
Accounts receivable	**$ (31,571)**	$ (75,922)
Merchandise inventories	**60,671**	(61,356)
Prepaid expenses and deposits	**1,175**	(6,363)
Accounts payable and other	**121,400**	124,639
Income taxes payable	**(3,515)**	18,767
Other	**1,864**	(2,453)
Change in other working capital components	**$ 150,024**	$ (2,688)

Cash and short-term investments

Cash and short-term investments consist of cash on hand and balances with banks, and investments in money market instruments. Cash and short-term investments included in the cash flow statement comprise the following balance sheet amounts:

(Dollars in thousands)		**2000**		1999
Cash	**$**	**(91,640)**	$	(32,549)
Short-term investments		**222,639**		571,569
Cash and short-term investments	**$**	**130,999**	$	539,020

Supplementary information

The Corporation paid during fiscal 2000 income taxes amounting to $98 million (1999 – $83 million) and interest payments of $107 million (1999 – $90 million).

11. Operating Leases

The Corporation is committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) for equipment and properties under leases with termination dates extending to 2040. Under sublease arrangements with Associate Dealers, the majority of these properties are income-producing. The minimum annual rental payments required in each of the next five years and thereafter are approximately $65 million for each of the years 2001 to 2005 and approximately $379 million cumulatively from 2006 to 2040.

12. Commitments and Contingencies

As at December 30, 2000, the Corporation has committed to letters of credit and guarantees of letters of credit aggregating approximately $182 million. These commitments relate to the financing of its merchandise operations and construction projects.

The Corporation had commitments of approximately $101 million for the acquisition of property and equipment and the expansion of retail store facilities.

The Corporation's Financial Services division has an agreement with a provider of credit card processing services. For the duration of this agreement, the Corporation has committed to pay a minimum of $12 million per year for the credit card processing services.

The Corporation and certain of its subsidiaries are party to a number of legal proceedings. The Corporation believes that each such proceeding constitutes routine litigation incident to the business conducted by the Corporation and that the ultimate disposition of the matters will not have a material adverse effect on its consolidated earnings, cash flow or financial position.

13. Financial Instruments

The purpose of this Note is to disclose the Corporation's exposure related to financial instruments.

Off-balance sheet financial instruments

The Corporation enters into interest rate swap contracts with approved creditworthy counterparties, to manage the Corporation's current and anticipated exposure to interest rate risks. The Corporation also enters into foreign exchange contracts, primarily in U.S. dollars, to hedge future purchases of foreign-denominated goods and services with an emphasis on those that are expected to be completed within a four- to six-month period. The Corporation also enters into equity contracts to hedge future stock-based compensation expenses. The Corporation does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities. Neither the notional principal amounts nor the current replacement value of these outstanding financial instruments is carried on the Consolidated Balance Sheets.

As at December 30, 2000, outstanding off-balance sheet financial instruments of the Corporation are summarized as follows:

(Dollars in thousands)	Notional Amounts Maturing In: Less than 1 Year	Over 1 to 5 Years	Over 5 to 10 Years	Over 10 Years	2000 Total	1999 Total
Interest rate swap contracts	$ —	$ 550,000	$ —	$ 100,000	$ 650,000	$ 870,000
Foreign exchange contracts [1]	$ 762,496	$ —	$ —	$ —	$ 762,496	$ 383,058
Equity contracts	$ —	$ 18,687	$ —	$ —	$ 18,687	$ —

[1] May include both forward contracts and options.

For the year ended December 30, 2000, interest expense included approximately $358,000 (1999 – $3,100,000) relating to interest rate swaps. Any unsettled interest differentials outstanding at year end were accrued for and included in accounts payable and other.

The estimated fair values of financial instruments as at December 30, 2000 and January 1, 2000 are based on relevant market prices and information available at that time. The fair value estimates below are not necessarily indicative of the amounts that the Corporation might receive or pay in actual market transactions. For financial instruments which are short-term in nature, carrying value approximates fair value. The fair values of other financial instruments are as follows:

(Dollars in thousands)	2000 Book Value	2000 Fair Value	1999 Book Value	1999 Fair Value
Financial assets and liabilities				
Loans and mortgages receivable	$ 12,632	$ 12,734	$ 10,606	$ 10,706
Long-term debt	$ (1,115,027)	$ (1,093,587)	$ (1,050,342)	$ (1,050,962)
Off-balance sheet financial instruments				
Interest rate swap contracts	$ —	$ 5,531	$ —	$ 5,884
Foreign exchange contracts	$ —	$ 592	$ —	$ (38)
Equity contracts	$ —	$ (1,506)	$ —	$ —

The fair values of loans and mortgages receivable, long-term debt and interest rate swap contracts were estimated based on quoted market prices (when available) or discounted cash flows, using discount rates based on market interest rates and the Corporation's credit rating. The foreign exchange contracts were valued based on the differential between contract rates and year-end spot rates. The equity contracts were valued based on the differential between contract rates and the year-end closing share price of the Class A Non-Voting Shares of the Corporation on the Toronto Stock Exchange. For the long-term portfolio investment (see Note 3), fair value information is not readily available. For interest rate swap, foreign exchange and equity contracts, the fair values reflect the estimated amounts that the Corporation would receive or pay if it were to unwind the contracts at the reporting date.

Interest rate risk

The following table identifies the Corporation's financial assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive as they are either non-interest bearing or bear interest at fixed rates.

	2000		1999	
(Dollars in thousands)	**Interest Sensitive**	**Non-Interest Sensitive**	Interest Sensitive	Non-Interest Sensitive
Cash and short-term investments	**$ 130,999**	**$ —**	$ 539,020	$ —
Credit charge receivables	**—**	**453,412**	—	389,251
Loans and mortgages receivable	**—**	**12,632**	—	10,606
Commercial paper	**—**	**—**	(234,025)	—
Long-term debt (including current portion)	**(65,000)**	**(1,050,342)**	—	(1,250,634)
	$ 65,999	**$ (584,298)**	$ 304,995	$ (850,777)

The Corporation enters into interest rate swap contracts to manage its exposure to interest rate risk. As at December 30, 2000, the Corporation had entered into contracts that exchanged a net notional amount of $50 million from fixed to floating rate debt (1999 – $120 million exchanged from floating to fixed). These contracts hedge the Corporation's net balance sheet interest rate sensitivity position. A one percent change in interest rates would not materially affect the Corporation's earnings, cash flow or financial position.

Credit risk

The Corporation's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Associate Dealers who individually comprise less than three percent of the total balance outstanding and are spread across Canada. Similarly, credit charge receivables are generated by credit card customers, a large and geographically dispersed group. Current credit exposure is limited to the loss that would be incurred if all of the Corporation's counterparties were to default at the same time. The credit exposure is the current replacement value of only those contracts that are in a gain position. As at December 30, 2000, the credit exposure due to interest rate swap and foreign exchange contracts was $22 million (1999 – $16 million). The Corporation believes that its exposure to credit and market risks for these instruments is negligible.

14. Business Combinations

Effective June 1, 2000, the Corporation purchased the assets of Auto Village/Drivers, an automotive parts chain in Western Canada. The results of operations of Auto Village/Drivers have been included in the Corporation's income statement as of June 1, 2000. Net assets acquired were $4.8 million. Total assets acquired include inventory—$4.5 million and fixed assets—$1.5 million. Current liabilities assumed were $1.2 million. Goodwill arising from the acquisition was $3.5 million and is being amortized over a period of ten years. Total cash consideration given for the assets was $8.3 million.

Effective September 1, 2000, the Corporation purchased the shares of Pacific Associate Stores Limited which had operated a chain of Associate Dealer stores in the Greater Vancouver area. The purchase method was used to account for this business combination and the results of operations of Pacific Associate Stores Limited have been included in the Corporation's income statement as of September 1, 2000. Net assets acquired were $2.2 million. Total assets acquired include inventory—$30.1 million, fixed assets—$7.5 million and other assets—$1.3 million. Total liabilities assumed include current liabilities—$33.7 million and future tax liability—$3.0 million. Goodwill arising from the acquisition was $6.8 million and is being amortized over a period of eight years. Total cash consideration given for the shares was $9.0 million.

15. Segmented Information

The Corporation's reportable operating segments are strategic business units that offer different products and services. The Corporation has three reportable operating segments: Canadian Tire Retail ("CTR"), Canadian Tire Financial Services ("Financial Services") and Canadian Tire Petroleum ("Petroleum"). CTR derives its revenue primarily from shipments of merchandise to the Associate Dealers. Financial Services is primarily engaged in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire retail cards and *Options* MasterCards. Petroleum revenue arises from the sale of petroleum products through its agents.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The Corporation evaluates performance based on earnings before income taxes. The only significant non-cash item included in segment earnings before income taxes is depreciation and amortization.

	CTR		Financial Services		Petroleum		Eliminations		Total	
(Dollars in thousands)	**2000**	1999	**2000**	1999	**2000**	1999	**2000**	1999	**2000**	1999
Gross operating revenue[1]	**$ 4,024,406**	$3,800,288	**$ 329,642**	$ 305,997	**$ 853,526**	$ 621,974	**$ —**	$ —	**$ 5,207,574**	$4,728,259
Earnings before income taxes	**$ 171,680**	$ 155,912	**$ 56,639**	$ 55,989	**$ 12,368**	$ 15,198	**$ —**	$ —	**$ 240,687**	$ 227,099
Income taxes									**(92,665)**	(81,170)
Net earnings									**$ 148,022**	$ 145,929
Interest revenue[2]	**$ 19,722**	$ 24,787	**$ 3,931**	$ 4,376	**$ —**	$ —	**$ (9,741)**	$ (9,272)	**$ 13,912**	$ 19,891
Interest expense[2]	**$ 93,856**	$ 94,202	**$ 10,572**	$ 11,651	**$ —**	$ —	**$ (9,741)**	$ (9,272)	**$ 94,687**	$ 96,581
Depreciation and amortization	**$ 100,017**	$ 108,306	**$ 19,311**	$ 14,010	**$ 7,693**	$ 6,026	**$ —**	$ —	**$ 127,021**	$ 128,342
Total assets	**$ 3,700,654**	$3,617,003	**$ 557,213**	$ 518,767	**$ 538,543**	$ 303,312	**$ (1,048,749)**	$ (567,798)	**$ 3,747,661**	$3,871,284
Capital expenditures	**$ 352,457**	$ 342,747	**$ 13,440**	$ 18,764	**$ 16,275**	$ 15,838	**$ —**	$ —	**$ 382,172**	$ 377,349

[1] Gross operating revenue includes dividend and interest income.

[2] Interest revenue and expense are not allocated to Petroleum for performance evaluation purposes.

16. Subsequent Event

On March 1, 2001, the Corporation sold a non-securitized third-party portfolio of receivables and its investment in one of its subsidiaries, Hamilton Discount Corporation Limited (HDCL). The Corporation received $135 million in cash proceeds, of which $75 million was used to extinguish HDCL's debt to the Corporation. HDCL operated as part of Financial Services and earned its revenues from the management of third-party credit card portfolios and transaction processing. The sale of these operations will cause an annualized pre-tax reduction in future earnings of approximately $4 million and a reduction in the unsecuritized credit charge receivables balance of approximately $130 million.

17. Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

Environment

Canadian Tire has long been a leader among Canadian retailers on issues of proactive waste management, product recycling and environmental stewardship. During 2000, our Supply Chain team improved its management of waste such as corrugated cardboard, scrap metal and stretch film by recycling nearly 20 percent more materials than in 1999—4,700 tonnes in all. As well, efforts at our distribution centres focused on reducing hazardous waste, resulting in a 45 percent decrease in these waste products during 2000. Our corporate office was also an active participant in diverting materials from landfills; nearly half of all building waste was recycled, along with more than 28 metric tonnes of shredded paper.

Canadian Tire's lead-acid battery recycling program marked the completion of its first decade with another successful year. Approximately 20 million pounds of scrap automotive and marine batteries were collected from customers by Associate Stores and recycled in partnership with our battery vendor, Exide Canada. In addition, our Marketing department assisted an additional 48 Stores in Ontario to qualify as test and repair centres for Phase 2 of Drive Clean, the province's mandated vehicle emission testing program. The 58 stores now certified tested the emissions of more than 102,000 vehicles during 2000.

Canadian Tire continues to be a strong industry voice for new recycling programs. We participated actively in regulatory developments involving leftover paint recovery in several jurisdictions, including Quebec and Nova Scotia; used oil and filter recovery in British Columbia, Quebec and Newfoundland; and packaging recycling in Ontario and Quebec.

During 2000, the Corporation sponsored a special Millennium Edition of the Canadian Tire Community Environmental Awards. Under this four-year-old program, employees of Associate Stores can request financial support for non-profit projects that make a significant contribution to the environment in their local community. We funded 14 projects totalling more than $26,000 with awards of up to $2,000 each. Among the projects receiving grants were the creation of an outdoor classroom in Harbour Grace, Newfoundland to teach children how to grow vegetables organically; the restoration of the Cooks Brook salmon habitat near Bridgewater, Nova Scotia; an education and planting project along Quebec shorelines; a cleanup and restoration project along the Mississippi River in Carleton Place, Ontario; and tree planting in Williams Lake, British Columbia designed to attract birds and wildlife that will enhance local Cub Pack and school science activities.

Health and Safety

Canadian Tire's comprehensive health and safety program continued to address employee health and wellness, workplace safety and compliance with both internal and regulatory guidelines for occupational health and safety. As a result of the Corporation's focus on accident prevention, our Distribution Centres achieved record-low workplace accident frequency and accident severity in 2000. This outstanding health and safety performance, one of the best in Canadian retail, allows us to benefit from lower insurance premiums.

Canadian Tire's automated Material Safety Data Sheet Faxback program is a free service that enables employees and customers to request health and safety information on chemical products sold in Associate Stores. Last year, the team added 3,800 new data sheets to our existing database of 8,000. More than 3,000 requests for material safety data sheets were processed in 2000, more than half of them via our automated system.

In 1999, Canadian Tire launched the Foundation for Families as the primary focus of its charitable giving across the country. Bringing hands and hope to families and communities in need, the Foundation's mission is to provide the basic necessities of life to help families back on their feet. It supports local charities that offer assistance to families when they are in need of life's essentials such as a hot meal, warm coat or shelter from the cold. And after a major disaster strikes, the Foundation for Families brings resources and people together to provide the products, goods and services that help communities and whole regions of the country to put their lives back together.

With 38,000 members, the Canadian Tire family and its Foundation are committed to making a difference in the lives of families and their communities. The Foundation matches funds that are donated by our Associate Dealers or raised by employees across Canadian Tire. In its first full year of operation, the Foundation raised approximately $2 million through events such as charity golf tournaments, silent auctions and marketing programs to fund hundreds of charitable projects. To cite just a few examples, $500,000 raised in the 1999 year-end "Family Tree" program went to 200 family assistance charities at the beginning of 2000. There were an additional 200 donations to individual charities through Dealer and Corporate community initiatives. *La Fondation Canadian Tire du Québec* purchased Perce-Neige, a summer camp for physically challenged children; it also donated $800,000 to a variety of charities in the province.

The Foundation's helping hand touched thousands of families in larger efforts during 2000. When Walkerton, Ontario faced an outbreak of deadly *E. coli* bacteria, the Foundation helped the community deal with the crisis by donating bottled water, showerheads and tap aerators. A 10-hour downpour flooded the small town of Vanguard, Saskatchewan; the Foundation worked with Canadian Tire vendors to supply bottled water and support cleanup efforts. When major rainstorms contaminated the water tables of Charlottetown, P.E.I. and Glace Bay, Nova Scotia, the Foundation sent trailer loads of bottled water to help residents cope with the crisis.

Wayne C. Sales
President and Chief Executive Officer of the Corporation

Gilbert S. Bennett
Chairman of the Board of the Corporation, Consultant and Corporate Director

Martha G. Billes [1, 4]
Chairman, Governance Committee
President of Tire 'N' Me Pty. Ltd., an investment holding company

Adam Bucci [3, 4]
President, Adam Bucci Ltée, which operates a Canadian Tire Associate Store

Gordon F. Cheesbrough [2, 4]
President and Chief Executive Officer, Altamira Investment Services Inc., an investment management company

Lilia C. Clemente [2, 3]
Chairman and Chief Executive Officer, Clemente Capital Inc., a New York-based investment management company

Austin E. Curtin [1, 2, 3]
President, Austin Curtin Sales Ltd., which operates Canadian Tire Associate Stores and Petroleum Outlets

James D. Fisher [2, 3]
Associate Dean, Joseph L. Rotman School of Management, University of Toronto

H. Earl Joudrie [1, 4]
Chairman of the Board, Gulf Canada Resources Limited, a major international, independent oil and gas exploration and production company

Donald C. Lowe [1, 3]
Corporate Director

Rémi Marcoux, FCA [1, 3]
Chairman of the Board, President and Chief Executive Officer, GTC Transcontinental Group Ltd., a company holding interests in printing and publishing companies

Ronald Y. Oberlander [1, 4]
Corporate Director

Frank Potter [2, 3]
Chairman, Emerging Market Advisors Inc., a consulting firm dealing with foreign direct investment

Maureen J. Sabia [1, 2]
President, Maureen Sabia International, a consulting firm, Corporate Director

Graham W. Savage [2, 4]
Managing Director, Savage Walker Capital Inc., a merchant banking company

John M. Stransman [1, 4]
Partner, Stikeman Elliott, a Canadian law firm

BOARD COMMITTEES

[1] **Management Resources and Compensation Committee**
Chairman, H. Earl Joudrie

[2] **Audit Committee**
Chairman, Maureen J. Sabia

[3] **Social Responsibility Committee**
Chairman, Frank Potter

[4] **Governance Committee**
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Chairman of the Board

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President and
Chief Executive Officer

J. Huw Thomas
Executive Vice-President,
Finance and Administration
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Information Technology and
Chief Information Officer

Candace A. MacLean
Assistant Treasurer

(Dollars in thousands except per share amounts)	**2000**	1999	1998
Consolidated Statements of Earnings			
Gross operating revenue	**$ 5,207,574**	$ 4,728,259	$ 4,347,283
Operating earnings before depreciation and applicable financing charges	**455,100**	429,937	404,079
Earnings from continuing operations before income taxes	**240,687**	227,099	249,712
Income taxes	**92,665**	81,170	82,732
Net earnings from continuing operations	**148,022**	145,929	166,980
Discontinued operations	**—**	—	—
Net earnings	**148,022**	145,929	166,980
Cash generated from operations	**352,314**	326,141	316,170
Cash generated from operating activities	**502,338**	323,453	364,381
Earnings retained and reinvested	**116,694**	115,084	135,681
Capital expenditures	**382,172**	377,349	303,058
Consolidated Balance Sheets			
Current assets	**$ 1,527,699**	$ 1,901,834	$ 1,511,338
Long-term receivables and other assets	**122,867**	105,362	36,021
Property and equipment	**2,097,095**	1,864,088	1,618,521
Total assets	**3,747,661**	3,871,284	3,165,880
Current liabilities	**1,124,751**	1,440,868	1,054,614
Long-term debt (excludes current portion)	**1,115,027**	1,050,342	815,000
Future tax liability	**21,865**	26,570	34,714
Shareholders' equity	**1,459,439**	1,344,754	1,261,552
Consolidated per Share			
Net earnings from continuing operations	**$ 1.89**	$ 1.89	$ 2.09
Net earnings	**1.89**	1.89	2.09
Cash generated from operations	**4.50**	4.22	3.96
Cash generated from operating activities	**6.41**	4.19	4.69
Dividends paid	**0.40**	0.40	0.40
Shareholders' equity	**18.58**	17.21	16.20
Statistics at Year End			
Number of Associate Stores	**441**	432	430
Number of petroleum outlets	**206**	202	195
Number of registered Class A Non-Voting shareholders	**6,495**	6,568	7,354
Number of registered Common shareholders	**439**	463	494

* 53-week period

1997*	1996	1995	1994	1993	1992*	1991
$ 4,087,802	$ 3,930,400	$ 3,795,641	$ 3,618,530	$ 3,432,024	$ 3,209,477	$ 3,009,566
345,179	320,930	319,174	305,575	281,660	249,835	297,955
209,498	195,914	189,622	185,615	162,980	131,062	219,889
60,927	64,018	67,872	70,846	62,596	44,622	87,832
148,571	131,896	121,750	114,769	100,384	86,440	132,057
—	—	—	(109,277)	(18,979)	(14,147)	(4,981)
148,571	131,896	121,750	5,492	81,405	72,293	127,076
308,686	274,230	254,639	199,566	194,391	213,036	223,894
274,036	302,702	123,895	161,141	285,258	194,546	255,245
115,240	96,978	86,557	(29,946)	45,129	36,417	90,981
253,488	220,728	195,045	90,567	42,362	87,603	177,826
$ 1,438,276	$ 1,339,790	$ 1,558,584	$ 1,655,445	$ 1,388,091	$ 1,308,082	$ 1,225,266
33,351	34,131	30,035	28,669	21,862	28,102	24,169
1,403,413	1,230,135	1,085,887	984,749	990,326	1,009,046	970,680
2,875,040	2,604,056	2,674,506	2,668,863	2,400,279	2,345,230	2,220,115
1,167,330	863,636	911,009	1,044,418	691,610	698,755	653,298
380,401	420,401	509,241	465,027	474,555	449,331	428,447
28,734	20,632	14,914	7,312	25,782	41,404	24,180
1,298,575	1,299,387	1,239,342	1,152,106	1,208,332	1,155,740	1,114,190
$ 1.79	$ 1.51	$ 1.38	$ 1.30	$ 1.11	$ 0.96	$ 1.46
1.79	1.51	1.38	0.06	0.90	0.80	1.41
3.71	3.15	2.89	2.26	2.14	2.36	2.48
3.30	3.48	1.41	1.82	3.15	2.16	2.83
0.40	0.40	0.40	0.40	0.40	0.40	0.40
15.79	15.04	14.00	13.03	13.40	12.87	12.40
430	426	424	423	425	424	420
193	197	199	202	208	213	207
6,999	8,297	8,308	9,294	10,525	10,871	11,012
519	569	571	602	640	674	694

Fiscal 2000

(Dollars in thousands except per share amounts)	1st Quarter 2000	1st Quarter 1999	2nd Quarter 2000	2nd Quarter 1999	3rd Quarter 2000	3rd Quarter 1999	4th Quarter 2000	4th Quarter 1999	Year End 2000	Year End 1999
Gross operating revenue	**$1,104,316**	$950,228	**$1,398,200**	$1,282,269	**$1,325,240**	$1,209,897	**$1,379,818**	$1,285,865	**$5,207,574**	$4,728,259
Operating expenses										
Cost of merchandise sold and all expenses except for the undernoted items	**1,005,671**	853,116	**1,261,555**	1,151,383	**1,196,619**	1,070,698	**1,265,267**	1,179,601	**4,729,112**	4,254,798
Interest										
Long-term debt	**21,169**	19,652	**17,263**	20,733	**17,991**	21,063	**18,428**	23,094	**74,851**	84,542
Short-term debt	**4,504**	2,096	**4,298**	3,517	**4,595**	4,988	**6,439**	1,438	**19,836**	12,039
Depreciation and amortization	**31,157**	22,413	**29,874**	24,958	**31,242**	23,783	**34,748**	57,188	**127,021**	128,342
Employee profit sharing plans	**2,543**	4,648	**5,565**	6,557	**4,828**	7,172	**3,131**	3,062	**16,067**	21,439
Total operating expenses	**1,065,044**	901,925	**1,318,555**	1,207,148	**1,255,275**	1,127,704	**1,328,013**	1,264,383	**4,966,887**	4,501,160
Earnings before income taxes	**39,272**	48,303	**79,645**	75,121	**69,965**	82,193	**51,805**	21,482	**240,687**	227,099
Income taxes	**15,120**	16,477	**30,664**	26,443	**26,936**	29,739	**19,945**	8,511	**92,665**	81,170
Net earnings	**$ 24,152**	$ 31,826	**$ 48,981**	$ 48,678	**$ 43,029**	$ 52,454	**$ 31,860**	$ 12,971	**$ 148,022**	$ 145,929
Net earnings per share	**$ 0.31**	$ 0.41	**$ 0.62**	$ 0.63	**$ 0.55**	$ 0.69	**$ 0.41**	$ 0.16	**$ 1.89**	$ 1.89
Weighted average number of Common and Class A Shares outstanding	**78,224,021**	77,568,406	**78,363,940**	77,088,791	**78,332,443**	77,075,014	**78,349,097**	77,211,467	**78,349,097**	77,211,467

Stock Trading Activity on the Toronto Stock Exchange

(Share prices in dollars, volume in thousands)

Class A Non-Voting	2000 1st Quarter	2000 2nd Quarter	2000 3rd Quarter	2000 4th Quarter	1999 1st Quarter	1999 2nd Quarter	1999 3rd Quarter	1999 4th Quarter
High	**$ 37.00**	**$ 24.90**	**$ 23.00**	**$ 19.30**	$ 43.55	$ 46.00	$ 43.40	$ 37.75
Low	**18.40**	**18.70**	**18.85**	**15.05**	37.50	39.05	33.30	32.50
Close	**19.00**	**22.30**	**19.10**	**18.60**	40.00	42.30	35.00	34.40
Volume	**30,831.0**	**22,409.8**	**15,261.1**	**17,734.3**	16,723.7	15,007.9	11,680.3	16,180.1
Common								
High	**$ 56.00**	**$ 52.50**	**$ 50.65**	**$ 46.50**	$ 55.00	$ 53.00	$ 61.00	$ 55.00
Low	**48.25**	**47.00**	**44.50**	**37.00**	48.05	46.25	47.00	50.00
Close	**53.75**	**49.70**	**45.00**	**38.25**	53.00	48.50	51.25	52.50
Volume	**72.8**	**39.2**	**30.8**	**22.5**	14.3	17.7	29.5	19.1

Source: Toronto Stock Exchange

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CORPORATE AND SHAREHOLDER INFORMATION

Alan B. Goddard
Vice-President, Corporate Affairs

Robert J. Tait
Director, Investor Relations

ANNUAL MEETING OF SHAREHOLDERS

Metro Toronto Convention Centre
Constitution Hall, North Building
255 Front Street West
Toronto, Ontario M5C 2W6
Wednesday May 2, 2001
At 10:00 a.m.

EXCHANGE LISTINGS

The Toronto Stock Exchange
Common Shares (CTR)
Class A Non-Voting Shares (CTR.A)

SOLICITORS

Cassels Brock & Blackwell LLP

AUDITORS

Deloitte & Touche LLP
Chartered Accountants

BANKERS

Canadian Imperial Bank of Commerce

Bank of Montreal

Royal Bank of Canada

The Toronto-Dominion Bank

REGISTRAR AND TRANSFER AGENT

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